THE INDIAN
TAXATION ENQUIRY COMMITTEE

VOLUME VII

Evidence

MADRAS, BANGALORE and OOTACAMUND

MADRAS

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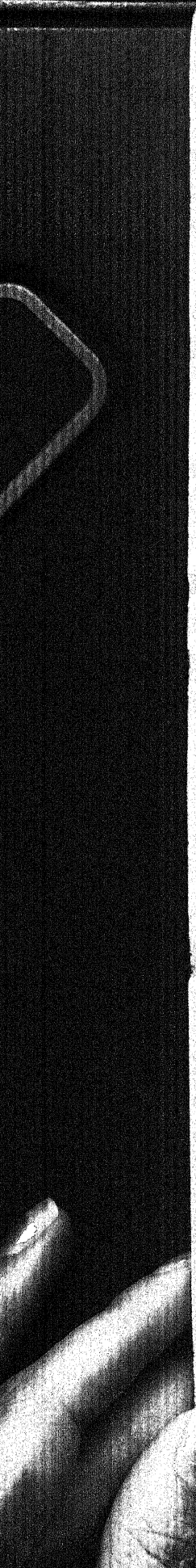

21st April 1925.

MADRAS.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Dr. JOHN MATHAI, D.Sc., and Mr. T. K. DURAISWAMI AYYAR. Department of Economics, University of Madras, were examined.

Written memorandum of Dr. Mathai and Mr. Duraiswami Ayyar.

INCIDENCE AND TAXABLE CAPACITY.

An estimate of the average income per head of population is of some use as a *general* indication of taxable capacity. But no conclusion of the practical value with regard to the incidence of taxation can be drawn except with reference to the manner in which the national income is distributed among recognisable economic groups. Estimates of average income per head of population have little value except as exercises in economic research.

Estimates of national income based on existing official statistics have little value. The primary data are admittedly unreliable; data relating to certain important incomes do not find a place in them and have to be made up by guess work. Except with regard to the income of large organised industries, no estimates can safely be based on existing statistics.

The best method of estimating the incidence of taxation under present conditions is to undertake an intensive economic enquiry in each province by dividing the province into distinct *economic areas* and investigating the economic resources of a *minimum number* of families belonging to *typical classes* in each area.

In dividing the population into classes, the primary consideration should be income, income being ascertained with reference to the payment of income-tax or land revenue as the case may be. It is important also to consider, in determining typical classes, whether people reside in cities or in rural areas.

PRINCIPLES OF TAXATION.

There is only one *principle* in taxation, namely, equality. Other principles are not principles, but administrative precepts. The bulk of the Indian tax system violates the principle of equality. This, however, does not necessarily condemn the Indian system because principles in public finance have no sanctity apart from the circumstances of each country.

Note.—For the Questionnaire and Annexures, see Volume III—Evidence.

Income-tax.

The rates of income-tax on incomes ranging between £1,000 and £10,000 per annum may be raised by 50 per cent of the existing rates in consideration of the fact that the richer classes in India contribute relatively so small a proportion of the consumption taxes. Any proposal, however, for an increase in the rates of income-tax in India must take into account the following considerations:—

(1) The prevailing high rates of interest on capital, and (2) the existence of joint family obligations.

The limit of exemption may be reduced to Rs. 1,500 provided this does not result in an undue increase in the cost of administering the tax.

The distinction between earned and unearned incomes must be applied with caution in India. The following considerations should be remembered:—

(1) The taxing of unearned industrial incomes might hinder industrial development at the present stage.

(2) The question of unearned agricultural incomes does not arise under the Income-tax Act.

(3) The taxing of public securities might raise the cost of loans to Government.

(4) The income on capital lent to agriculturists consists of two parts —one, earned, being the remuneration for the risk involved in the business, and the rest unearned. The former is not a fit object of enhanced taxation, while discrimination against the latter might under present conditions be bad policy.

Intoxicants.

We propose a policy of *experimental* local option with regard to country spirits. Toddy may be taxed for revenue purposes but not for control. The objection to the present excise policy is not that it has led to excessive drunkenness, but that it is tending to place too heavy an economic burden on the poorest classes.

Tobacco.

A tax on the acreage under tobacco cultivation is hardly to be recommended. The cultivation is done in innumerable small patches; the yield per acre differs widely; and the attempt to differentiate between crops would be a novel precedent in land taxation in India. In the only other case where crop differentiation is attempted, namely opium, the element of social harm is immeasurably greater and the area under production is so small.

Manufacture may take the form of drying and curing and the making of snuff, cigarettes and cigars. Most of the manufacture is carried on as a home industry and would be exceedingly difficult to regulate for the purpose of taxation. Sale also would be difficult to control on account of the facility of illicit transactions in an easily transportable commodity like tobacco.

The only feasible system appears to be a State monopoly in which the cultivation would be in the hands of licensed growers in specified areas, who would be required to hand over the produce to Government, the Government maintaining their own curing yards and storehouses. It is doubtful, however, if the yield of the tax would justify the organisation of such a large establishment.

In any case, it must be remembered that tobacco is consumed largely by the classes on whom the bulk of consumption taxes now rest and the tax is therefore liable to increase the inequalities of the existing taxation.

Land Revenue.

Land revenue in India partakes of the character of both a tax and a rent. The difference between a tax and a rent, from this point of view, is not entirely an academic question as some authorities urge.

Land revenue in its present form is an old tax and that is a factor which is in its favour. If the proceeds of land revenue were expended more largely for the direct advantage of the agriculturist, the sense of burden in respect of it would be perceptibly diminished. The feeling of irritation which undoubtedly exists at present with regard to land revenue is largely due to the uncertainties of resettlement, and to some extent also to the inequality of the burden as between the large and the small proprietor. With regard to the former, it is worth while considering the introduction of a system of permanent settlement with provision for an occasional extra levy, whenever necessary.

We cannot, in view of the present conditions, accept the suggestions which have been made for the conversion of land revenue into a tax on agricultural incomes. It would involve too big a change in a taxation system sanctioned by long usage. It would also involve considerable administrative difficulties besides the possibility of a large loss in revenue.

The idea of taxing land on the basis of its capital value does not commend itself to us. First, it offers hardly any advantages over the existing system. Secondly, land valuation will be difficult to carry out and would introduce a serious element of uncertainty into the main industry of the country, and thirdly, capital value is an unsafe test of taxable capacity.

Commercial Undertakings.

In the case of a Government commercial undertaking, what rate may be charged by Government for its services or commodities is a question to which no general answer can be given. The rate will depend on the character of the service or commodity, the economic condition of the consuming classes and the financial necessities of Government. Any excess of the charge levied over the level of commercial return must be considered a tax.

Customs.

Whether tariff rates imposed for other than protective purposes have resulted in diminishing returns or not, is a point on which it is exceedingly difficult to express an opinion on the data available. Diminishing returns are the result not merely of customs duties but also of price fluctuations. Prices have fluctuated in recent years to such an extent that it is difficult to distinguish the extent of the diminishing return caused by variations in customs duties as distinct from those caused by other factors.

Export duties are not to be levied except where the article enjoys a monopoly. In the Madras Presidency there are no such articles. With regard to the question of levying export duties for the purpose of preserving raw materials or manures, our opinion is that no satisfactory case can be made out for such duties in Madras at present.

Conclusion.

It is difficult to suggest new sources of taxation in the Madras Presidency. At the same time the chief existing taxes appear to have reached the limits of elasticity. Moreover, increased expenditure for development purposes is now urgently required. Under these conditions, a suitable adjustment of public finance becomes a problem of extraordinary difficulty and this difficulty is enhanced by the progress of democracy. Two new taxes which may be suggested on purely economic grounds are succession duties and a tax on higher agricultural incomes, but grave sentimental and political difficulties stand in the way of their introduction. In our opinion no real solution for the problem of taxation can be found apart from a radical reconsideration of public expenditure. Retrenchment is valuable for the financial relief which it may bring, but its chief value in the present situation is that reduction in what appears to be unnecessary expenditure will create a less unfavourable attitude in the country towards proposals for enhanced taxation. The primary difficulties of public finance in every country are at bottom psychological.

Dr. Mathai and Mr. Duraiswami Ayyar gave oral evidence as follows :—

The President. Q.—You say that the best method of estimating the incidence of taxation under present conditions is to undertake an intensive economic enquiry in each province by dividing the province into distinct economic areas and investigating the economic resources of a minimum number of families belonging to typical classes in each area. Have you any idea as to how long this will take?

A.—That really is the important point about it. My idea is this. Take a province like Madras and divide it into economic areas on the lines suggested by Mr. K. L. Datta. Then the real problem would be to find out in the different economic areas such a number of typical areas as would make it possible for you to finish an enquiry in a reasonable length of time. You have got two things to take into account—the amount of time, and the principle on which the typical area may be determined. If you want a really exhaustive enquiry you will have to spend more time and resources than the country can afford.

Q.—I am purely on the question of the incidence of taxation. The general economic enquiry has been transferred to the other Committee.

A.—The one is closely bound up with the other. I do not know how you can separate the two. If you want to arrive at any satisfactory conclusion with regard to the incidence, you have got to wait till some satisfactory result has been produced by the other Committee. I do not think you will be able to come to any reliable conclusion till you have some satisfactory basis with regard to the economic condition. The two things hang together in my opinion.

Q.—You would first divide the country into distinct economic areas?

A.—Yes.

Q.—Then you would find out typical localities in each economic area?

A.—Yes.

Q.—Having got the typical localities you would divide the population of these localities into classes and then you have got to find out typical families?

A.—Even in these typical areas you cannot find it for every family. You should select a minimum number of families. I do not think that you are going to get anything in our country by the method of question and answer. It is simply impossible and useless. You will have to make an intensive enquiry and it will have to be very slow. Therefore, you will have to reduce the number of typical areas consistently with efficiency and the available funds.

Dr. Paranjpye. Q.—So the primary consideration should be income?

A.—On that point, I wish to say that the classification in Sir Edward Gait's census report is based on occupation. This gives important and interesting results. But the classification according to income is the only one which is of use for this purpose. It is necessary to see if the population can be divided into a number of recognisable economic groups.

Q.—Surely the standard of comfort affects the matter. An agriculturist living in a village may have the same income as a clerk in an office, but their scales of expenditure are quite different.

A.—It is quite likely. I should not like to express an opinion on that till I make an enquiry.

Mr. Duraiswami Ayyar. A.—We have recognized that distinction in the statement that it is important to consider, in determining typical classes, whether people reside in cities or in rural areas. Besides that, what underlies this statement of ours is the feeling that, as Mr. Herbert Samuel made an estimate for England by splitting up the population into classes with varying incomes and taking into account the consumption of each class and how much the different classes pay in the shape of taxation, you can also do the same here. You can take a number of typical classes, have a number of family budgets, find out how much taxation each class

bears with reference to the various commodities consumed by it, and thus arrive at a proportion of the income paid by way of taxation.

Q.—Have we any materials for this?

A.—Quite so. That is the very purpose of the economic enquiry we suggest in each province.

Q.—Would it not be feasible to begin from the taxation end, that is, to take each tax and see what classes it hits?

Dr. Mathai. A.—How will that help you?

Q.—The salt tax hits everybody, income-tax hits certain classes only, while the municipal taxation like the profession tax is on certain classes in towns.

A.—Don't you in that process come back to the original question of classification according to income? Whether you begin at one end or the other you will be sooner or later up against the question of how to distinguish the various classes of the population, with reference to varying standards of comfort.

Q.—Would it not be useful to indicate what classes do not pay a fair share?

Dr. Mathai. A.—It might help. I am not sure about it. But you would have to know your classes.

The Maharajadhiraja Bahadur of Burdwan. Q.—You know at the present moment there is a Committee going round to go into the preliminaries of what an economic enquiry might cost, and to give an indication as to what kind of economic enquiry might be made. Questions of details must of course be left to that Committee, but it strikes me that later on, when an economic enquiry has got to be made, these enquiries instead of being imperial would have to be provincial.

Dr. Mathai. A.—I entirely agree.

Q.—That being so, the question is whether the different provinces would face such an enquiry. To make myself quite clear, I say this: what is to be gained by an enquiry? Would such an enquiry be appreciated by these classes who are in most cases perhaps illiterate and who might consider that this enquiry into their every-day life was a piece of oppression by the Government for the purpose of further taxation? Do you think that such an enquiry would be appreciated by the masses at large? Don't you think that it would give a handle to political agitators in this country to say, "Here is Government trying to impose new taxation and prying into the every-day private life of the ordinary labourer"?

A.—My answer is this. It depends entirely on the way you set about the enquiry. There is a way of making these enquiries which would not necessarily imply any inquisitorial investigation. It depends on the method and personnel of the enquiry.

Q.—It is perfectly clear that such an enquiry cannot be made by a large committee. We have to take individual cases. It is perfectly clear that you will have to go to the villages to take what is called statistics and get the actual income of each individual. Probably, this will have to be done by the lower grade of Government officials. I want you who have studied this question to say, whether from the actual facts in the villages, do you or do you not think that there is a distinct danger, if an economic enquiry in India really wanted to go into details and really wanted to find out the wages of the working classes. There is a very splendid handle for the agitators to put into the minds of these classes a suspicion as to the possibility of fresh taxation. I want you to tell me whether there is this possibility or not; because you professors are very keen about having an economic enquiry.

A.—With reference to the presumption that we professors are keen about an economic enquiry, I may say that I do not accept that presumption in the form in which you put it.

Q.—I do not mean you particularly. You students of economics like Shah and others want to have a general economic survey.

A.—If there is to be a general economic survey, I would not start with a big enquiry. I would prefer small enquiries. Let the habit of enquiry be established.

Q.—Dr. Mathai says that he would not start this large enquiry. That meets my point.

Dr. Mathai. A.—What I mean is that this Committee may lead to enquiries by small committees of small typical areas. It remains to be seen whether an investigation of that kind will lead to such dangers would depend entirely on the method, agency and personnel. If you depend entirely on the tax-collecting agency in this Presidency, you might be up against trouble. The trouble here is that people who are usually responsible for such work happen to be revenue subordinates. These people do their investigation under an ill-organised system. There is nobody to instruct and guide them. But it is possible to devise a method of enquiry which would avoid these difficulties. Therefore, I do not necessarily accept the presumption behind the Maharajah's question.

Mr. Duraiswami Ayyar. A.—This Taxation Committee is also concerned with the economic enquiry, because the determination of incidence of taxation is bound up with the question of the income of the classes and the amount of taxation that each class pays.

Q.—Supposing you had an economic enquiry. I presume the object for such an enquiry should be mainly to relieve the burden of the poor.

A.—To get true facts. To get at the truth, which is valuable for its own sake—not necessarily to relieve the burden of a particular class.

Q.—Is it only to know who pays what and to find out what burden there is on a certain class?

Mr. Duraiswami Ayyar. A.—You may devise policies to correct the defects, by a redistribution of the burden or by recourse to new taxation.

Q.—Supposing a man earns Rs. 2 a month; your desire would be to make that man earn Rs. 4 or Rs. 6. You want an enquiry to improve the economic condition of those who do not fare well in this country, or do you want an enquiry to know what is the present economic condition?

A.—Both to ascertain the facts and also to promote the general development of the country. It all depends on the facts as ascertained by the enquiry.

Q.—Are you going with the materials at your disposal to develop and improve the condition of those who fare worse?

A.—Not only of that class. But in the general interest of the country, a redistribution may have to be made. If it is found that the lowest class makes Rs. 10 and pays Rs. 5, then you will have to redistribute the burden.

Q.—Suppose you find that a Rs. 10 man only pays Re. 1 for salt tax and has Rs. 9 surplus. Would you consider that in the present conditions in India Rs. 9 is too small an income for any man, and try to arrive at a solution to increase that Rs. 9 to Rs. 18? That is the question to which I want to know the answer. I am asking you, because the professors always advocate an economic enquiry.

A.—I protest against that statement that we always advocate an economic enquiry.

Q.—Under the circumstances, I want to know what you will do.

A.—Agricultural reform might come into being. The consolidation of holdings, for example, might require revision of the tenancy laws.

Q.—In the guise of an economic enquiry you want to deal eventually with the existing tenancy legislation of the country, because you cannot for instance consolidate holdings. You cannot for instance stop fractionisation and other things without touching some of the tenancy legislation?

A.—Of course, some of these questions will require consideration.

The President. Q.—Do you consider that an economic enquiry to be useful must be an enquiry into the condition of the people as well as an enquiry into the method of improving that condition?

Mr. Duraiswami Ayyar. A.—Yes.

Dr. Mathai. A.—As a student of economics, my own idea on that question is, that the best kind of economic enquiry is an enquiry which

is carried on without reference to any specific objective. In the past, economic enquiries in countries like England were conducted without any specific object.

Dr. Paranjpye. Q.—Afterwards it would be for the Government and the politicians to suggest remedies in the light of the facts at their disposal. The committee of enquiry now formed might make tentative proposals to be examined more fully later on.

A.—Yes.

Sir Percy Thompson. Q.—In a country like India do you think it is possible to get anything more than mere general broad impressions? Such impressions could not be reduced to figures. Further, do you think it is necessary to make the enquiry a general one? Do you know any country where they have attempted to do more when considering the burden of taxation?

A.—My answer is this. I am not aware of any country, where for the modification of the taxation system a detailed economic inquiry has been undertaken. But it depends on the degree of broadness. It is possible for you to have general impressions which will be so broad that they will have no manner of nearness to the truth.

Q.—My idea of the broad general impression is this: you can start from the taxation end and see what broad general classes each tax hits. By this method you can come to a general conclusion without separating your population into a classification based on income.

A.—I agree that would mean that you have some idea of the classes into which the population divides itself. Have you got any data for it?

Q.—You have got the income-tax. You have excise. You know more or less with regard to excise as to what class it is that pays it. Similarly, with the customs duties on luxuries, you would know what classes are hit by what tax.

A.—For example, take the tax on toddy and country spirits. They are consumed to some extent by different classes.

Q.—I would not go into such details.

A.—May I suggest that questions like this are rather important for the suggestion you make?

Q.—We cannot go into details very fully. A statement such as the following—a man earning five hundred rupees pays so much, a man with an income of a thousand rupees pays so much—would be very fallacious.

A.—I think we ought to be able to get something better.

Mr. Duraiswami Ayyar. A.—I go very far with you and I am in general agreement except with regard to the broadness of the general impressions. I should like to go a little further than you and get at less broad impressions by means of some kind of enquiry or investigation.

Sir Percy Thompson.—It is certainly a subject for enquiry.

Dr. Paranjpye. Q.—When you have the family budgets you know the amount of tax that a family pays. You have got to consider the general average. So far as the members of that class is concerned it will merely be a general average. It is a general impression not applicable to individuals.

A.—Yes. It comes much nearer the truth and is less general. It is only a question of degree.

Sir Percy Thompson. Q.—I think the object of such an enquiry would be, as far as possible, to get rid of false impressions. You would replace impressions by facts. We all agree.

A.—We want to go a little further. That is all.

Dr. Hyder. Q.—It is admitted that taxation should be based on the principle of equality. If you want to reduce this into terms of sacrifice, what would you have, equal sacrifice or least aggregate sacrifice?

Dr. Mathai. A.—I would not like to commit myself to either, but I am inclined to say equality modified by considerations of least aggregate sacrifice. When you speak of least aggregate sacrifice, I take it you are thinking of a system under which people on the margin of subsistence,

or the bulk of the people may not contribute anything whatever to the State. The burden would fall almost entirely on the well-to-do people. Now, the contrast you are suggesting is that on the one hand, and on the other hand the suggestion that the burden should be levied equally on every class of population. If that is your question, I think it would be very difficult to give a categorical answer to that. My own idea is this, that if you adopt the position of least aggregate sacrifice in the present economic condition of the country, you are likely to be up against a very serious financial position. While my sympathies are with the school which ask for the least aggregate sacrifice, I think in view of the present undeveloped conditions of our country, it would be necessary to waive that principle.

Q.—There is a general impression in the minds of the people that the income of the bulk of our people is lower than what it should be compared with that of the bulk of the people in other countries. But, if you take the excise duties and customs duties, you would find that out of the total revenue of 16 crores of rupees, 5½ or 6 crores come from the excise duties, and they come from the poor people. Well, in such a case, what would you have?

A.—I would certainly like to lessen the burden on the classes who have least and to shift it on to the shoulders of the richer classes, but the process should be very slow in view of the financial needs of the country.

Q.—We are talking only about absolute principles.

Mr. Duraiswami Ayyar. A.—It is an ideal. We cannot deal with absolute principles. Principles in public finance have no sanctity apart from the circumstances of each country.

Dr. Mathai. A.—Practically the point is this. Where you have a country where the bulk of the population is poor, you must cast your net wide if you want to get enough money to carry on an efficient system of administration which will develop the resources of the country.

Q.—I ask you this question for this purpose. There is a universal idea here that taxes are somewhat high, and the idea that every one should pay something conflicts with the doctrine of the least aggregate sacrifice.

A.—We have to approximate to that ideal, but the process will be slow.

Sir Percy Thompson. Q.—Your suggestion with regard to income-tax is that it may be possible to raise the rates by 50 per cent on the incomes ranging between £1,000 and £10,000?

Mr. Duraiswami Ayyar. A.—Yes, that means Rs. 15,000 and 1½ lakhs of rupees.

Q.—You do this on comparing the rates in the European countries?

A.—Yes.

Q.—You say: "Any proposal, however, for an increase in the rates of income-tax in India must take into account the following considerations: (1) the prevailing high rates of interest on capital". I do not follow that.

A.—It means the business men who have to carry on business in India have to borrow their capital at much higher rates than in European countries. Consequently, if you impose a further burden in the shape of income-tax of the same heavy character as in European countries, it will penalize them too heavily.

Q.—I do not quite follow your line of argument. Income-tax is levied only after the business man has paid interest on his loans.

A.—The business men in India have to compete with the business men in other countries, and there they borrow their capital at very low rates, but here have to borrow at very right rates; consequently, when they compete with the products of other countries, they are at a disadvantage. If on the top of that you have an income-tax of the same heavy character as in other countries it is a differential burden on them. Therefore, we will stop short of rates that obtain in other countries.

Q.—You suggest that a high rate of income-tax has an effect upon the price of the commodity produced. Do you suggest that the high rate of income-tax enters into the cost of production? Does it?

A.—Yes, the rates of income-tax bear upon the cost of production. That is why there is such great agitation in England for the reduction of income-tax, because they find it difficult to compete in the world market.

Q.—I have never heard this statement made, because income-tax is a tax on the difference between the cost of production and the selling price.

A.—Yes, but the profits are reduced when you have a heavier income-tax, and when profits are reduced, there will not be the same inducement to enter into business.

Q.—Do you mean to suggest that the rates of income-tax are so high that people would cease to produce?

A.—Very high rates are a handicap to business. That is why I say that we do not want income-tax in India as heavy as in other countries, still the income-tax which is being paid now is very much lower than in other countries. We should have a compromise, that is, a half-way-house arrangement.

Q.—The point is this. You make a suggestion that the high rate of income-tax cripples the business man, because it raises the cost of production?

A.—No, it cuts into the profits.

Q.—But profits have nothing to do with the cost of production.

A.—No. Normal profits do enter into the cost of production.

Q.—If you have an income-tax on cotton manufacturers and not on jute manufacturers, then you will get capital flowing from the cotton to jute industry, but when the tax is the same, how can this result occur?

A.—It is not as between the cotton and the jute industry in India I make this statement, but as between industries in the whole of India and elsewhere. It is there the difficulty comes in. It is between the industries in India and industries elsewhere. The difficulty comes in there and I say that there ought to be a difference between the rates of income-tax in India and elsewhere, because an Indian has to pay a higher rate of interest always.

Q.—I cannot follow you. India is presumably content with the same profits as France. Having made profits, if the Indian Government elect to take a larger proportion of the profits than the French Government take, that does not cripple this man's competition, but it leaves less income to spend. That does not enter into the cost of production.

A.—It may be that the French business man has to pay only an interest of 3 per cent on the working capital, but in India he has to pay 5 per cent. To them there is already a handicap and on the top of that handicap you should not have the same rate of income-tax.

Q.—Of course, a high rate of interest is a handicap, because that is a thing which enters into the cost of production, and it lessens the profits, but the profits being what they are, the rate of income-tax you impose on them, provided it is a general income-tax, does not enter into the cost of production at all.

A.—I do not agree with you there. When you compete with outside countries where there is less rate of interest on the working capital, naturally there will be less profits here. Therefore, unless you lower the rate of income-tax, there will not be a parity between the industries.

Q.—If there is less profits, there is less income-tax, because we only charge on the profits.

A.—It is only a question of rates. If the rate of income-tax is less, only then there will be parity between the manufacturer here and the manufacturer elsewhere. There cannot be parity unless you reduce the rate of income-tax.

Q.—I suggest that rate of interest enters into the cost of production, but not the other.

A.—But normal profits also form part of the cost of production.

Dr. Paranjpye. Q.—The only effect would be possibly it would tempt the Indian capitalist to invest his capital in other countries.

A.—That means that the industrial development will suffer here.

Q.—But is capital so mobile here?

A.—In any case here the industries will suffer.

Sir Percy Thompson. Q.—You say that the distinction between earned and unearned incomes must be applied with caution in India. I agree that it must be applied with caution. But it seems to me that your reason No. 2 that the question of unearned agricultural incomes does not arise under the Income-tax Act, is the most serious one, because of the fact that rents for instance, which are the principal form of unearned income, are not charged to income-tax at all.

A.—I agree.

The President. Q.—With regard to excise, I take it that Mr. Duraiswami Ayyar also accepts the schemes of Dr. Mathai?

A.—Yes, Sir.

Q.—You propose a policy of experimental local option with regard to country spirits?

Dr. Mathai. A.—Yes.

Q.—With regard to that policy, the suggestion comes to this. Unless the action involves some sacrifice on the part of the majority who vote it, it is an unjustifiable interference with the freedom of the minority.

A.—I accept the position. May I explain what is meant by experimental local option? It is this. If you are going to have an effective system of local option at all, it will depend very largely on whether you will be able to constitute a satisfactory electorate.

Q.—You mean adult suffrage?

A.—I should not say that. If you can have an electorate which is sufficiently representative of the general locality, that is sufficient.

Q.—Can you give us an example of local option, where there is no adult suffrage?

A.—Probably there is not. But in this country it will be necessary to compromise on that point.

Q.—Does it not involve an enormous extension of the electorate? The proposals of the Bombay Excise Committee would involve a very large extension of the electorate.

A.—Suppose you start a policy of local option straight away, it will be necessary for you to consider so many circumstances connected with the case. My position is this. When you look at the experiments in local option, you get the impression that there are a number of people who theoretically at any rate hold this opinion—people whose opinion must command weight.

Q.—It might be the solution of the problem, but at the same time where it has been tried, I find people in practice regard it as a failure.

A.—In this country the conditions are so different from the conditions in other countries, and at the same time at present we have no data to work out a general policy. Therefore, we suggest you should take a few areas where it is possible to constitute a fairly satisfactory electorate, and get data on which you can base a general policy later on. I do not want you to launch out straight away into a general local option policy. I do want some kind of experiments, so that public opinion might have some chance of being tested with reference to data. I know they tried in Salem, but they tried under conditions which were not favourable and it did not work well.

Q.—You have studied the experiments made in other countries like Scotland, Canada and Australia, and agree that there is great doubt as to their success?

A.—I do think that people have doubts about the practical results of it.

Q.—Can't you learn from the history of other countries?

A.—You cannot convince public opinion by the experience of other countries different from ours.

Q.—Does your pamphlet bring out the *pros* and *cons* of those opinions?

A.—I think public opinion in this country is very strong about this question.

Q.—I want to emphasise the importance of bringing out the *pros* and *cons* of the history of these experiments in other countries.

A.—My opinion is that there is no Provincial Government hereafter in this country which can afford to ignore the strong opinion in the electorate on this question. Therefore, my suggestion is that local option is the least harmful method of satisfying them.

Q.—May I, with all respect, put it to you that one of the functions of the teachers and economists in this country is to educate the public as to the actual facts of the trials made in other countries, and not to allow public opinion to proceed without any information?

A.—I may say, we have been doing it very much to our own cost. It is impossible for the teacher or economist to do it without sufficient practical evidence.

Q.—Do you suggest that the experiments should be paid for by the majority who want to enforce it?

A.—The suggestion I should like to make is this. Supposing you have a selected area which wants this experiment to be tried, then before you actually introduce the experiment of local option, I should like to get an assurance from the local body in charge of that area to say if they are willing to have it introduced, and are willing to bear a certain portion of the cost.

Q.—Is it fair that the ryot should pay for a fad of the urban intelligentia?

A.—You might take a local area where this question of conflict between the town and country does not arise. Take an entirely rural area and make your experiments there. Practically, what I would do is: at present you give certain amount of grants to these local bodies; I will tell them this . . . . .

The President (interrupts). Q.—Are you going to allow the members of the district board to vote for it?

A.—No. Before you constitute the electorate and set the local machinery in motion, I would ask the local body in charge of that area whether they want the experiment to be made. Supposing we have to meet a deficiency in revenue, it will mean some reduction in the amount which the Provincial Government would make to that local body, because it was with their express assent that we started the experiment in the area.

Q.—What is to be the relation between the local body and the electorate?

A.—The relation is simply that they are both in the same area. We do not want local option to be introduced unless the local body asks for it.

Q.—I suppose you will agree that grants should be for specific services?

A.—Yes.

Q.—When you deprive the local body of a grant, you deprive it of a certain service?

A.—It will compel the local board to raise an additional amount of revenue. The people in the locality will ultimately have to bear it.

Q.—The obvious method will be the levy of a land cess.

A.—That would be one method.

Q.—So that you are going to make the landowner pay?

A.—Yes, the landowner would be sufficiently represented in the electorate.

Q.—Would he form anything like the majority?

A.—I do not know if you are justified in making this clear-cut distinction between landlords and other classes, as if there was no point of contact between these classes.

Sir Percy Thompson. Q.—Would you tell the landlord before he votes on this experiment of local option that he has mostly to pay the piper?

A.—I think the landlord would understand it. If the landlord as a community in a particular area is sufficiently strongly set against the experiment of local option, it seems to me that he has sufficient influence to vote it out.

The President. Q.—Would you accept the statement that the Board of Control in England between 1915 and 1921 did more than had been achieved in the whole previous history of England to reduce intemperance and to reduce the consumption of liquor?

A.—I have seen the statement; I have no opinion on that.

Q.—Do not the Local Governments, aided by Advisory Committees, exercise practically all the powers which were exercised by the Board of Control?

A.—The character of that Committee is a ticklish question. My own idea is that it has not worked satisfactorily, because it is not sufficiently free.

Q.—And the licensing boards?

A.—They have not worked very well in Madras.

Q.—I have a statement with regard to the United Provinces that the boards have greater powers of reducing licenses than can be exercised by licensing authorities in Great Britain or by licensing authorities with a mandate for limitation of licenses under any local option scheme in the British Empire.

A.—I wish that were true of Madras.

Q.—If that were so, would you be satisfied?

A.—I do not want to suggest that I am altogether against excise Advisory Committees; they have done fairly useful work. The only point is that they do not go sufficiently far.

Q.—You will concede that there has been an enormous reduction in the number of shops?

A.—I quite admit that. As a matter of fact, I do not take the view that the present excise policy has caused any increase in drunkenness. My objection really to the auction policy is that while putting up prices and so helping to check consumption, it is placing too big a burden upon the poorest classes. I feel that, particularly with regard to toddy. At your auctions you put up prices: naturally, therefore, the poor man on account of the rise in prices has to get his consumption restrained, but at the same time, because the consumption of toddy is not really consumption which varies as much as that of distilled spirits, there is a kind of relative steadiness about it. The result is that when you put up prices the man pays a lot more for practically the same quantity, and thereby it seems to me that while you are able to get a restraint of consumption, you are placing a serious economic burden upon him.

Q.—You are no doubt aware that auctions have been recommended as a measure of temperance reform in England?

A.—I do not accept the English policy as really the model for India. Auctions are effective, but they have their disadvantages.

Q.—You know the procedure in Bombay which was adopted with reference to the report of the Excise Committee?

A.—I do not know what action has been taken upon it. I saw a Government resolution on it.

Q.—The last action in the Council, if I am not mistaken, dropped local option in that province altogether and ended in a vague recommendation in favour of prohibition after 20 years in place of the original motion recommending immediate action. Have you studied the effect generally in provinces of the very strong restrictive action taken in the last few years?

A.—I have studied the question with reference to Madras; it has been effective here in some ways.

Q.—Do you accept the statement that there has been beyond doubt a great extension of smuggling and common use of the most pernicious of all intoxicants—cocaine? The policy has also given rise to illicit distillation and smuggling of liquor and cocaine and the consumption of crude opium on an unprecedented scale.

A.—If you are speaking of illicit consumption with reference to the kind of drinks resorted to by ordinary people in this Presidency, viz., arrack and toddy, I should say that the danger of illicit production would be very much greater in regard to toddy than in regard to arrack.

Q.—Actually, have not the number of prosecutions for illicit distillation reached over 2,000 a year?

A.—I think that is going to be reduced hereafter. My point is this: in regard to arrack you find that the business of the distillation is going to be increasingly an organised industry. If you could have distillation organised fairly well as a business, it is possible for you to get at it easily for the purpose of control. The difference is between raw liquor and distilled liquor. If you are thinking of raw liquor, it means that it is necessarily going to remain a home industry. If you are going to control distilled liquor, the possibility that the industry may be an organised industry gives you a better handle for control.

Q.—I do not quite understand what you mean by an organised industry.

A.—In this Presidency, for example, Parry & Company are increasingly responsible for the distillery business.

Q.—Every villager knows how to distil arrack?

A.—It is not quite so common. I should say it is very much less common than the production of toddy.

Q.—In a passage in your book (Excise and Liquor Control) in which you deal with toddy, you say that the consumption of toddy produces less of the evil effects peculiar to alcohol. What is your basis for this statement?

A.—The Report of the Excise Committee of 1905 and the Government note prepared by Mr. Strathie. The point, I think, which these experts have taken over and over again with regard to toddy is that toddy is a bad thing: they say it is bad, because stale toddy upsets the digestion.

Q.—In the words of the Commissioner of Abkari, Bombay, "The confirmed toddy drinker soaks. He becomes bloated and lethargic, while the drinker of country spirit has his glass or two now and then and is soon done with it."

A.—Distilled spirit acts upon your nervous system; toddy reacts upon your bowels. Mainly I think that is the difference. If you are going to prohibit things which upset people's digestion, we should in this country be prohibiting one another's food.

Q.—Perhaps you have seen the Report of the Crime Enquiry Committee in Burma?

A.—I have not seen it, but I have looked into criminal statistics with regard to that in this Presidency.

Q.—Will you take it from me that one of the recommendations of that Committee was to put toddy under the control of the crime investigating officer?

A.—I have discussed this matter with various people who have had experience of it, and I should not have put it forward unless I had some kind of assurance from them that it is roughly the right position. I have discussed it with people who have had district experience in areas where toddy is produced on a large scale, like the Tinnevelly district.

Q.—It is a very open question.

A.—Probably it is. You have to make a distinction between individual consumption and aggregate communal consumption. If prices go down, you might find an increase in consumption: but that very probably does not imply an increase of consumption per head. The increase is an aggregate increase, due largely to the fact that people who do not drink are able now to afford the luxury of a drink.

Q.—Can you support that by figures?

A.—It is a matter purely of observation. If you ask me for figures, I will give you something like this: During the great rise in prices during the war, you will find with regard to toddy and arrack practically the same amount of consumption according to official reports. If you examine the figures with regard to the retail price of toddy, you will find that you are able to get a steadiness of consumption with regard to toddy, by increasing prices very much more than you do in regard to arrack.

Q.—Have you compared the rise and fall in the consumption of arrack in proof gallons with the rise and fall in the number of trees tapped?

A.—That does not worry me, because the whole question turns on the distinction you make between individual consumption and communal consumption. The only justification for Government to interfere in this business is that individual people who drink, drink to excess. It is only when consumption is excessive that social harm results and the whole question is: what do you mean by excessive consumption? You fix a certain standard and only beyond that standard do you get drunkenness. As a general rule, the man who habitually drinks toddy does not drink to the same extent of excess as a man who drinks arrack or any of the distilled spirits. When you look at the main justification for Government control in various countries, you find two conditions. The first condition is that excessive drink does harm. The second is that there is an appetite in people which drives them to excessive drinking. Unless these two conditions exist, you as a Government have no business to interfere in this matter. With regard to toddy, these two conditions exist to a very much less extent. If you are going to find a real practical solution for this problem, you have to look more closely into the distinction between distilled liquor and raw liquor. Perhaps you are aware that among temperance people on the continent of Europe (not among administrators) there was a general feeling till three years ago that public control ought not to extend to liquor which does not contain more than 12 per cent of absolute alcohol.

Q.—If you find that the consumption of spirit was fairly steady and the total number of trees tapped was larger, what would you say?

A.—I should examine it from the point of view of individual consumption.

Q.—Then you come to the 12 per cent which you say obtains in France, Germany and Switzerland. Actually, the policy in this Presidency recognises that, in so far as it has abolished the arrack shops in certain districts, leaving the toddy shops.

A.—I think Government are moving on right lines in this matter.

Q.—You say that the objection to the present excise policy is not that it has led to excessive drunkenness, but that it is tending to place too heavy an economic burden on the poorest classes. They would not give up their drink and if you make them pay a high price for it, it would tell upon their subsistence level. I suppose that is your objection?

A.—Yes; the poorest classes who consume toddy. What I would suggest with regard to toddy is that you had better get back to the fixed fee system.

Q.—In other words, you would reduce taxation on that?

A.—Yes; if you think toddy ought to be kept under control.

Q.—The whole of this depends on your supposition that there is less drunkenness in toddy than in arrack. Have you studied the figures of drunkenness in the taluks in which the arrack shops have been suppressed?

A.—You get the figures of drunkenness from convictions from police records. I do not think they are of much value.

Q.—Tobacco. You say that the attempt to differentiate between crops would be a novel precedent in land taxation in India. We have just learnt that in Burma they have a crop rate for tobacco, sugarcane and betel.

A.—I did not know that.

Dr. Paranjpye. Q.—In the Punjab we have a crop rate for irrigation. That is, two different crops which require the same amount of water are charged differently. What would you say to a first step of State monopoly of retail sale which would be worked through licenses sold by auction, say, a monopoly of vend over an area such as a taluk?

A.—That is more or less the kind of system you have with regard to toddy and arrack shops. They are trying that in Cochin.

Q.—They have that in Cochin, Travancore, Patiala and other States.

A.—My fear is that with regard to a large area like the Madras Presidency the question of smuggling and illicit production might become a more difficult matter. In regard to Cochin and Travancore, they have this great advantage that hardly any tobacco is produced there. Most of it come from outside. It is a small manageable area.

Q.—It was suggested to us as a corollary to this monopoly of vend that there should be a fairly high limit of private possession and that all traders in tobacco should be licensed, so that a cultivator would have to sell his crop before a fixed date either to the monopolist of his area or to the monopolist of another area or to a licensed trader.

A.—I think that might be tried.

The Maharajadhiraja Bahadur of Burdwan. Q.—You say that land revenue in its present form is an old tax and that is a factor which is in its favour. Do you consider land revenue to be a tax?

A.—Our position with regard to that is that it partakes of the character of both a tax and a rent. There is an element of tax in it as it stands at present.

Q.—You consider it as an old tax and not as an old system of land revenue?

A.—If you are looking at it as a thing which has been in existence for 150 years, I think that all these 150 years it has partaken of the character of a tax.

Q.—You consider it as an old tax?

A.—You might drop the word 'tax' and substitute 'contribution' if you like.

Q.—You say that because land revenue is an old tax, you cannot, in view of the present conditions, accept the suggestions which have been made for the conversion of land revenue into a tax on agricultural incomes. From this, I understand that you are not in favour of the conversion of land revenue into a system of income-tax on agricultural incomes?

A.—Yes.

Dr. Paranjpye. Q.—You say that the feeling of irritation which undoubtedly exists at present with regard to land revenue is largely due to the uncertainties of resettlement and to some extent also to the inequality of the burden as between the large and the small proprietor. What is this inequality of burden as between the large and the small proprietor, if land revenue is regarded as a contribution from the surplus?

A.—I think we had better put on one side, for the purpose of clear discussion, this controversy as to whether land revenue is a tax or a rent. Whatever might be the way in which this was regarded in the days before British rule, since British rule started, the basic idea has been surplus, but in collecting that surplus, I think almost unconsciously, perhaps also consciously, various principles which relate specially to a tax system have been introduced, with the result that you have a rent which is gradually approximating to a sort of tax.

Sir Percy Thompson. Q.—What are those characteristics?

A.—Take, for example, the latest recommendation of the Joint Committee—the idea of no taxation without representation. They recommended that all the principles which regulate land revenue should be brought under legislative control. It seems to me that when they accepted this principle they were thinking of it, not in the light of a rent, but in the light of a tax. The sanction for taxation is that it is accepted by the people upon whom the burden is left. It is a principle of taxation which is accepted in democratic countries and to the extent that they decided to apply that here, it seems to me that they were thinking of it rather as a tax than as a rent.

Q.—Do you say that the fact that this payment is made is a justification for relief from a general tax like the income-tax? You know that agricultural incomes are exempt from income-tax on the ground that they pay land revenue; do you think that a reasonable justification?

A.—I think it is a practical justification at present, because it is very difficult for you to get at the income of the agriculturist.

Q.—That is another ground altogether. On the ground of principle, do you accept the proposition that you are not subjecting agricultural incomes to an income-tax, because they already pay a very heavy tax by way of land revenue?

A.—No. I want to clear my position. If it were possible from a practical point of view, I should like to make this land revenue an income-tax, i.e., a tax upon agricultural incomes, instead of a contribution from

the land. But I see a lot of practical difficulties and I am not suggesting it for the present. Therefore, we have got to reconcile ourselves to the position that the person who lives by land makes his contribution to the State in the shape of land revenue.

Q.—May I put it this way: If you abolished land revenue and substituted for it a universal income-tax which applied to agricultural incomes, would not the landholder be in a more favourable position than anybody else? Let us suppose I am a shopkeeper. I pay rent for the shop and I get some income on account of the shop. A landholder makes the same income from land, but he pays nothing for the land. We use the shop and the land for the same purpose, why shouldn't he pay as much as I pay for my shop?

A.—Isn't that really a question of detail?

Q.—I think it is one of vital principle.

Mr. Duraiswami Ayyar. A.—That is taking the position that the State is the landlord.

Q.—But you take the very opposite position that the holder is an absolute owner?

A.—We do not take that position.

Q.—You say that the absolute owner can have that land without making any contribution to the State except a general contribution which the non-landholder also makes?

A.—It is not partaking of the character of a tax and rent. If that position is taken up, it will become altogether a tax.

Q.—Let me go a little further. Suppose the finances of your country do so well that you can dispense with income-tax altogether. Now then, what is the position that your landholder has got?

A.—That is a very theoretical position. When you can abolish income-tax, you can abolish land revenue also.

Q.—What I say is that it is more reasonable for the State to take a share of the rent; having done that, you must assume equitable treatment as between the landholder and Government. If you then put a general tax, like the income-tax, that must apply right through.

A.—That is a practical question. Already, he bears the burden of the land revenue, and on the top of it to put income-tax would be too much of a burden.

Dr. Mathai.—Could you not make some kind of adjustment by which the thing might be equalised?

Mr. Duraiswami Ayyar. A.—It takes for granted that the State is the absolute owner.

Q.—Nobody has ever been able to define the term 'owner'. It is fifty things in fifty different countries. What appears to have happened is that the State has parted with its rights in land and consideration is the liability to pay a certain sum of money at such rates as are prescribed. If that is not a rent charge, I do not know what a rent charge is. If it is rent charge why should it exempt you from income-tax?

A.—It is partly rent charge and partly tax. It is that which explains the position.

Q.—There are two pieces of land. One, a piece of ryotwari land, pays a land revenue of Rs. 40. There is another piece of land exactly similar which is rented from the landlord and for which the tenant pays Rs. 80. He pays no land revenue but pays rent, just as in England. Why should not his profits be taxed?

A.—The profits of the farmer could be taxed. It is on a different footing. It is a business in the case of the latter.

Q.—The man who pays Rs. 40 should not be taxed and the man who pays Rs. 80 may be taxed?

A.—In the case of one it is business; in the case of the other there is a certain right of ownership. Where the owner occupies for generations he pays land revenue. There should not be land revenue as well as income-tax.

Q.—So the proposition is that the landlord is the absolute owner?

A.—Not an absolute owner.

Q.—It seems to me that you do lip-service to that principle.

Dr. Mathai. A.—Probably we do.

Dr. Hyder. Q.—Passing on to the next sentence I take it that you are in favour of a permanent settlement in respect of land revenue and then calling upon the agriculturists to pay an extra levy whenever there is a financial necessity for the State?

A.—That is the proposition.

Q.—There would be an element of uncertainty in respect of this occasional extra levy. At present there is a certainty for at least 25 to 30 years. When the land is permanently settled, he may pay this extra levy four or five times and it may result in a state of affairs with more uncertainty than at present.

A.—We thought of that difficulty. We reconciled ourselves to it in this way. It is only on a special emergency that an occasion for a levy would arise and as the emergency passes away the thing would be dropped.

Dr. Mathai. A.—The point is whether a legislature that represents property interests is likely to accept a proposal of this kind. Is that your difficulty, or is it that you want to reduce the element of uncertainty?

Q.—My point is this. If you settle land permanently and expose the zamindars to an occasional levy, there will be the same amount of uncertainty as no one knows how many times there will be a deficit in the provincial budget.

Dr. Mathai. A.—For one thing it is likely to be only for emergencies. In the second place, an extra levy would mean only a very small proportion of the permanent revenue. In the case of a thirty-years settlement the family settles down to a particular standard of expenditure. At the end of 30 years the whole thing is shaken about. Compare that with a system where you have a definite amount of land revenue with a small extra levy coming in occasionally. The question is a relative one. Which is the worse? My point is that the element of uncertainty in the thirty-years settlement is really the greater.

Q.—In the course of the last 30 years how many times have there been deficit budgets?

A.—I can't say off-hand.

Sir Percy Thompson. Q.—You know the tendency of emergency taxes, don't you? The income-tax was an emergency tax in England.

Dr. Mathai. A.—The whole point is this. It really depends on the question of public expenditure.

Dr. Hyder. Q.—Your point is that if there is control over expenditure, you will have no occasions for increase. Supposing you have full control over the sources of revenue and the excise revenue suddenly falls, you will have to have recourse to an extra levy?

Dr. Mathai. A.—An extra levy like this would not cause general resentment if the particular kind of expenditure for which this is wanted is acceptable to the bulk of the people. If you have a scheme of elementary education and if you go to the Council with a demand for 50 lakhs of rupees, I have got sufficient faith in the electorate that it will be accepted. At present they would turn round and say that the great bulk of your expenditure was determined at a time when they had no voice. Therefore, if you propose an extra levy, they would say that you ought to do away with the unnecessary expenditure. If you have control over expenditure, then it seems to me that this extra levy would not be so very difficult to carry out.

The President. Q.—Have you had any Retrenchment Committee in this Presidency?

A.—We had one.

Q.—Composed of representatives of the democracy?

A.—In the first place its work was not sufficiently public. In the second place, I do not think Government accepted their recommendations to the extent they ought to have.

Mr. Duraiswami Ayyar. A.—What reconciled us to this proposal is that land revenue has not grown very rapidly. The sacrifice of revenue will not be great owing to its inelastic character. Moreover when new land is brought under cultivation, this would not affect the growth of revenue.

Dr. Hyder. Q.—I find that from 1890 to 1924 there have been fourteen deficit budgets and hence the landlords and the agriculturists might be apprehensive of a levy coming every other year.

Mr. Duraiswami Ayyar. A.—There will be a check also on expenditure when you have to face the Council.

The President. Q.—In the last paragraph you say that "the idea of taxing land on the basis of its capital value does not commend itself to us." Are you there referring to Mr. V. K. Ramanujachariar's book?

Dr. Mathai. A.—We are thinking of a system like that of the Japanese.

Q.—You say land valuation will be difficult to carry out. Will your criticism still apply if there is a tax on rental value?

A.—It would be less difficult to ascertain rental value.

Q.—There would be a fixed rate of levy?

A.—But what is the advantage of it?

Q.—All the districts would pay the same rate. At present the rate varies with the settlement; nobody can say what the rate would be.

Mr. Duraiswami Ayyar. A.—But the capital value of land will not be uniform.

Q.—I am speaking of rental value. The rate of taxation may be fixed by the legislature at a certain percentage.

Dr. Mathai. A.—May I know if there is any idea of centralising the revenue?

Q.—The Settlement Officer would make the valuation and the legislature would fix the rate. The Collector would apply the rate. Mr. Ramanujachariar calculates it as 1 per cent of the capital value.

A.—I do not know if it would make very much difference from the present position. Can't you have uniformity even in the present system by equalizing the districts?

Q.—The districts settled earlier would always be paying less, owing to the differences in the commutation rates.

Dr. Mathai. A.—How do you estimate your rental value?

Q.—I have not gone into the question.

A.—You have got a small landlord who cultivates his own farm. How do you estimate the rental value?

Q.—From the rent the tenants would pay for that land.

A.—If you estimate from the profits he gets out of land, you are practically carrying out the same process as the present settlement.

Q.—You will pay a uniform rate of tax, whereas at present you pay a rate which depends upon the idiosyncrasy of the Board of Revenue and the Settlement Officer.

Mr. Duraiswami Ayyar. A.—Even then the idiosyncrasy would come in in the matter of valuation.

Q.—To some extent.

A.—How would you apply such a scheme?

Q.—You would apply it to districts as they fell in, and ultimately the whole province comes in.

Mr. Duraiswami Ayyar. A.—Unless it is done at the same time, you will not have uniformity.

Q.—At present you can never get it at all.

Dr. Mathai. A.—We do not think that lack of uniformity is the most important objection to the present system.

Diwan Bahadur J. VENKATANARAYANA NAYUDU, B.A., B.L., Inspector-General of Registration and Registrar of Joint Stock Companies, Madras, was next examined.

Written memorandum of Mr. Venkatanarayana Nayudu.

I

As the Inspector-General of Registration, Madras.

Q. 88.—The Indian Stamp Act is a revenue law which enters largely into the business transactions of daily life. Its operation is more or less automatic in that its application is left to the people themselves. It is therefore necessary that the working of the Act should be as clear as possible, so that the people may thoroughly understand the obligations which rest upon them. The principles underlying the Indian Act having presumably been borrowed from the English Act, any departure made to suit Indian conditions should necessarily take account of those principles.

Commercial transactions, for example, are lightly taxed, compared with others, in accordance with the British practice, and an undue enhancement of the Indian duties in this respect is out of the question, in view of the international character of commerce, and the comparatively slow progress made by it in this country.

The duties on transactions relating to property are rather heavy, and if a further increase is sought to be effected in these duties the question of undervaluation of property or distortion of transactions, or both, will have to be faced in all seriousness. There is already section 27 of the Stamp Act which shows which way the wind blows; for it requires that the facts affecting the stamp duty should be fully and truly set forth in instruments. The State is, no doubt, entitled to a share in the periodical rise in the value of land; but such improvement is partly the result of the disproportionate demand therefor, as a form of investment consequent on the slow development of trade and industry and the lack of public confidence in business enterprises. There should, therefore, be a limit to the stamp duties levied on this form of investment, which is resorted to by the people, not so much for the income it yields as for the element of safety present in it.

The Stamp Act was an all-India measure till the 1st April 1922. From that date, an enhanced scale of duties has been introduced in this Presidency to meet the general deficit; but this has inevitably led to a difference in rates throughout India, necessitating the levy of the balance, where necessary. The disparity in the scale of duties, however, is bound, in the long run, to affect the free course of transactions as between one province and another, and it is to be hoped that the incidence of the duties will once more be equalised in all the provinces so soon as their financial position is restored.

Q. 93.—Strictly speaking, the registration fees levied should not be higher than the sum required for meeting the cost of the registration staff including pensions, cost of stationery, buildings, etc., a margin being of course provided as a safeguard against the variations in the receipts consequent on the fluctuations in registrations. The service rendered by the Registration Department mainly consists in the creation of evidence of title in respect of transactions relating to land, but the agency which records the transfer of revenue registry in respect thereof is divorced from that which registers transactions generally. Consequently, neither record can be said to be complete in itself; but opinions differ as to the feasibility of co-ordination of both the agencies so as to secure a registry of each and every transaction. The registering public incur, all the same, a double expenditure in consequence of the dual nature of the agency employed. Until, therefore, a self-contained system of registry can be introduced, registration fees should be so regulated as not to exceed reasonable limits, the same being regarded not as a tax expected to yield a surplus to Government for utilization for their own purposes, but as a remuneration for the services rendered which benefit both the Government and the public alike.

For these and other reasons, the "Government of India has repeatedly affirmed that the 'Registration Department has not been established for the purpose of realizing a profit to the Government, but in order to secure a better record of title in land and better evidence of monetary transactions among the people' and has constantly impressed upon all Local Governments 'the need for devoting the surplus in their hands (after meeting pension and other indirect charges) to providing facilities for registration'."

It has accordingly been the practice to utilize in a large measure the surplus derived from registration receipts, partly for opening new offices which have the effect of reducing the distances the parties have to travel for getting their documents registered and partly for improving the prospects of men who, by dint of hard and honest work, have contributed to the surplus.

With the termination of the Great War, however, has come the inevitable demand for economy and retrenchment from all sides, but it has not been found feasible to reduce the number of existing registration offices or the size of district charges, both courses being considered to be detrimental to the public as well as to the department. The alternative has consequently been adopted of raising, with effect from the 1st March 1922, the scale of fees for the registration of documents of value exceeding Rs. 100, so as to leave untouched the poorer classes who have generally recourse to transactions of lower values. It is not, however, a question of finding funds for the Registration Department which remains self-sufficient, but of pooling the income of this and other departments with a view to cope with the general financial crisis.

The enhancement of registration fees for such a purpose marks, of course, a definite departure from the time-honoured principle that only so much sum should be collected by way of fees as should ordinarily suffice to meet the requirements of the department. Indications of the coming change, however, were not wanting even in previous years, but they lacked an authoritative pronouncement. While supporting in a measure, the unavoidable change, however, the Hon'ble the Minister for Education, stated as under in the course of a discussion in the Local Legislative Council in March 1924:—

". . . . . We had to raise the fees, as a matter of obligation to the general finances of the State, and not out of the necessity for seeing that the department was self-supporting. I may add that I myself do not see any particular reason why we should maintain the present rates when the finances are in a better condition. My own idea of the department is, as Honourable Members are aware, that we should maintain it for the convenience of the rural population and open new offices when people make applications for them. . . . ."

The financial position of the Presidency being what it is, a reduction of the present scale of registration fees is out of the question at present, but there can be no two opinions as to the soundness of the principle laid down by the Government of India, having regard to the obligations which rest upon the Local Government to make registration easy and popular, to introduce a complete record of registry and to bring the prospects of the men in the department into line with those obtaining elsewhere. These reforms may be taken in hand and pushed on, once the financial stability of the province is restored, in response to the demand of the public that the fees levied should be spent for purposes for which they are primarily intended.

Q. 157.—The levy of uniform stamp duties and the central administration thereof ought to be commended for reasons given in my answer to Q. 88. If the levy of stamp duties at varying rates cannot, for financial reasons, be altogether dispensed with, the apprehended transfer of business from one province to another will affect not the transactions affecting immovable property but those relating to movable property, money included.

Even when a tax is unchanging in its incidence, a division of its proceeds between the Central and Provincial Governments generally arouses provincial jealousies; and these will be all the more intensified in the case of stamp duties levied at varying rates in different parts of the country. A further obstacle to the allocation of the proceeds lies in the varying income derived, not from one, but from several taxes in the same province where the land revenue—to mention only one instance—exceeds the revenue

from income-tax and *vice versa*. In the circumstances, it will not be equitable to take a particular tax by itself for the purpose of making a division of its proceeds.

The alternative seems to be to pool all the resources which are laid under contribution by the Government of India before deciding upon a division of the income from a particular tax or taxes. At the same time, the question will have to be considered, whether in view of an increasing share of central revenue demanded by Provincial Governments in the past, the Government of India should not confine itself to a few taxes and appropriate the whole of the proceeds therefrom, leaving the Local Governments to utilize the entire revenue derived from other sources.

The foregoing considerations more or less apply to judicial stamps.

II

As the Registrar of Joint-Stock Companies, Madras.

Q. 88.—India being industrially backward, the stamp duties on companies may remain what they are at present; but should it at all be considered necessary to raise them in view of the growing financial needs of the country, the following suggestions may be examined:—

Comparing the incidence of duties and fees payable in the matter of registration of companies in England with that in India, it is seen, in the first place, that the *stamp* duty payable here in India is far less than that payable in England. In England the memorandum of association and the articles of association have each to bear a deed stamp of 10 shillings and, in addition to these, in respect of *limited* companies an *ad valorem* stamp duty is also imposed on the nominal capital at the rate of *£1 for each £100 or portion of £100 and the like upon any registered increase of capital (section 112 of the English Stamp Act, 1891, as amended by section 7 of the Finance Act, 1899, and section 39 of the Finance Act 1920—10 and 11 Geo. 5 cap. 18). The form of the statement of nominal capital is enclosed (Annexure I). Here, in India no such statement of nominal capital is required to be filed with the Registrar of Companies, and the only stamp duty payable is Rs. 30 on the memorandum of association, and Rs. 50 on the articles of association (Articles 9 and 32 of the Madras Stamp *Amendment* Act, 1922). As the duty in force in England on the nominal capital of limited companies is *ad valorem*, the imposition of a similar duty here will not affect companies with small share capital and companies of magnitude should be able to bear the proportionate duty. Having regard, however, to the fact that the conditions in India are not so favourable as in England, a duty of two annas for every Rs. 100 of nominal share capital may be imposed, and a reduction may be made in the stamp duty payable on the memorandum and articles of association which is only 10 shillings in England, but which is Rs. 30, and Rs. 50 here in the Madras Presidency. The duty on these two documents may therefore be reduced to Rs. 10 each. The effect of the above suggestions is illustrated in Annexure II and it will be seen therefrom that the stamp duty increases proportionately with the increase in the nominal capital.

Secondly, as regards *registration* fees, the fee payable according to Table B of the Indian Companies Act, 1913, is heavier than that payable according to Table B of the Companies (Consolidation) Act, 1908, as will be seen from the following figures:—

Capital.	Registration fee in India.	Registration fee in England.
Rs. 20,000 (£1,333-6-8) ..	Rs. 40 ..	Rs. 30 (£2)
„ 30,000 (£2,000)	„ 60 ..	„ 30 (£2)
„ 75,000 (£5,000)	„ 115 ..	„ 75 (£5)
„ 1,50,000 (£10,000)	„ 150 ..	„ 93-12-0 (£6-5-0)
„ 15,00,000 (£100,000) ..	„ 625 ..	„ 431-4-0 (£28-15-0)
„ 30,00,000 (£200,000) ..	„ 775 ..	„ 506-4-0 (£33-15-0)
„ 75,00,000 (£500,000) ..	„ 1,000 ..	„ 731-4-0 (£48-15-0)
Maximum fee	„ 1,000 ..	„ 750-0-0 (£50)

* Prior to 29th April 1920 (vide section 39 of the Finance Act, 1920) this duty was only 5 shillings for every £100.

In order that the present scale of fees levied on the capital of companies may not hamper the growth of smaller concerns among them, it is desirable that it should be brought into line with the scale in the English Act. The scale given in Table B in the First Schedule may accordingly be revised so as to accord with Table B in English Companies (Consolidation) Act, 1908—Rs. 15 being taken as equivalent to £1.

The revision of the scale of stamp duty and registration fees as suggested above, whilst increasing the stamp revenue, will not in any way fetter the growth of joint-stock companies, the revision being unfelt in the case of smaller concerns and bearable in the case of the bigger ones—vide Annexure III. The actual figures worked out on the basis of the foregoing proposals for the year 1923-24 show a surplus of Rs. 27,476 under stamp duties and registration fees put together—vide Annexure IV.

Q. 91.—Except in the case of well-managed companies, it appears that deeds effecting transfer of shares are in many cases not stamped either intentionally, or owing to ignorance or indifference on the part of the company officers. Such cases usually remain undetected, since the chances of the transfer deeds being filed before a public officer are few and far between. The best remedy for such evasion appears to be to add a provision in the Indian Companies Act, 1913, requiring that a return in the form annexed (Annexure V) of cases of transfers of shares in the case of every company having share capital, whether public or private, should be filed with the Registrar within a month from the date of registration of transfer as in the case of the return of allotment (section 104), such statements being accompanied by the original transfer deeds concerned which will be returned to the company after inspection by the Registrar. This provision will impress on companies the duty of seeing that the transfer deeds are properly stamped, since insufficiently stamped transfer deeds will be impounded by the Registrar at the time of his scrutiny.

The institution of this return has also the advantage of being found helpful to the public, as it will enable the Registrar's office to keep always an up-to-date list of the shareholders of a registered company. As the law stands at present, transfers of shares are required to be entered only in the *annual* list of members and summary filed under section 32 of the Indian Companies Act, 1913, and there is no up-to-date information as regards transfers effected during the period intervening between the filing of any two lists of members.

In case it is not considered expedient to make any new provision in the matter, the object in view, viz., that of ensuring that deeds of transfers of shares are got duly stamped, can be achieved also by adding an additional footnote to Form E of the schedule III to the Indian Companies Act, 1913, to the following effect:—

"The original deeds connected with the transfers of shares noted in columns 7 to 10 of the list should be attached for the Registrar's inspection and return."

Such an alteration of the forms in the schedule III is permitted by section 151 (2) of the Act.

The scrutiny of transfer deeds will inevitably add to the work of the companies department; and failing the remedies suggested above, a declaration may be caused to be added in the annual list of members to show that the deeds in question have all been duly stamped.

ANNEXURE I.

COMPANY LIMITED BY SHARES.

Statement of the Nominal Capital of Limited.

Pursuant to section 112 of the Stamp Act, 1891, as amended by section 39 of the Finance Act, 1920.

The Nominal Capital

of

Limited

is pounds, divided into shares

of each.

Signature .

Description .

Dated the day of

192 .

NOTE.—This statement should be signed by an officer of the company and lodged with the memorandum of association and other documents when applying for registration of the company.

ANNEXURE II.

£1 = Rs. 15.

Limited Companies.

Nominal share capital (Limited Companies).	Existing stamp duty.				Proposed stamp duty.				Stamp duty in force in England.			
	Memorandum.	Articles.	Statement of nominal capital.	Total.	Memorandum.	Articles.	Statement of nominal capital.	Total.	Memorandum.	Articles.	Statement of nominal capital.	Total.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	s.	s.	£	£
Rs. 20,000 (£1,333) ..	30	50	..	80	10	10	25	45	10	10	14	15 (Rs. 225).
Rs. 60,000 (£4,000) ..	30	50	..	80	10	10	75	95	10	10	40	41 (Rs. 615).
Rs. 15,00,000 (£100,000).	30	50	..	80	10	10	1,875	1,895	10	10	1,000	1,001 (Rs. 15,015)

ANNEXURE III.

Total stamp and registration fee (Memorandum and Articles).

Capital.	Existing.				Proposed.				
	Stamp on memorandum.	Stamp on articles.	Registration fees.	Total.	Stamp on memorandum.	Stamp on articles.	Registration fees.	Stamp on capital.	Total.
	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.
Rs. 30,000 (£2,000)	30	50	60	140	10	10	30	$37\frac{1}{2}$	$87\frac{1}{2}$
,, 75,000 (£5,000)	30	50	115	195	10	10	75	$93\frac{3}{4}$	$188\frac{3}{4}$
,, 15,00,000 (£100,000)	30	50	625	705	10	10	$356\frac{1}{4}$	1,875	$2,251\frac{1}{4}$
,, 45,00,000 (£300,000)	30	50	925	1,005	10	10	$506\frac{1}{4}$	5,625	$6,151\frac{1}{4}$

ANNEXURE IV.

Statement showing the effect of the proposals on the receipts in the financial year 1923–24.

Actually collected during the year.					Collections under the proposal.				
Number of companies.									
Registered during the year. (1)	Companies that their increased nominal capital during the year. (2)	Stamp duty. (3)	Registration fees. (4)	Total receipts. (5)	Stamp duty. (6)	*Ad valoram* stamp duty at As. 2 for Rs. 100 of capital (additional). (7)	Registration fees. (8)	Total. (9)	Excess revenue. (10)
		RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.
96	..	7,600 (95 × 80) (*a*) one company was registered under section 26 and was exempt from stamp duty.	14,610	22,210	1,900 (95 × 20).	(*b*) 27,397	9,073	38,370	16,160
..	19	Nil.	1,533	1,533	Nil.	(*c*) 11,844	1,005	12,849	11,316
96	19	7,600	16,143	23,743	1,900	39,241	10,078	51,219	27,476

(*a*) Memorandum Rs. 30 + Articles Rs. 50.
(*b*) Nominal capital of companies registered was Rs. 2,19,17,450.
(*c*) Nominal capital was increased by Rs. 94,75,270.

NOTE.—Maximum fee under the proposal will be Rs. 750 (£50).

ANNEXURE V.

Return of Transfers of Shares.

The Indian Companies Act, 1913.

(Section .)

(To be filed with the Registrar within one month after the transfer is registered.)

Return of transfers (*a*) from the of 192 to the of 192 of the (*b*)

Made pursuant to section .

Name of transferer with address and occupation.	Name of transferee with address and occupation.	Number of shares transferred.		Date of registration of transfer.
		Ordinary.	Preference.	
(1)	(2)	(3)	(4)	(5)

NOTE.—(*a*) In making a return of transfers under section of the Indian Companies Act, 1913, it is to be noted that—

1. When a return includes several transfers made on different dates, the actual dates of only the first and last of such transfers should be entered at the top of the front page and the registration of the return should be effected within one month of the first date.

2. When a return relates to one transfer only, made on one particular date, the date only should be inserted, and the spaces for the second date struck out, and the 'made' substituted for the word 'from' after the word 'transfers' above.

(*b*) Here insert name of company.

Mr. Venkatanarayana Nayudu gave oral evidence as follows:—

Sir Percy Thompson. Q.—In the fourth paragraph of your reply to Q. 88 you say that the disparity in the scale of duties is bound in the long run to affect the free course of transactions as between one province and another, and it is to be hoped that the incidence of the duties will once more be equalised in all the provinces so soon as their financial position is restored. Can you do that except by making stamps a central subject?

A.—Stamps should be made uniform.

Q.—And the only way you can make it uniform is by making it a central subject?

A.—Yes.

Q.—Is that a desirable thing, in your view?

A.—In these days when there is the cry for provincial autonomy, if you take that measure, I think it may be a retrograde step.

Q.—You say you are going in the direction of provincial autonomy. By advocating this method, will you be going in that direction?

A.—The Legislative Councils are clamouring for more powers over the subjects affecting taxation.

Q.—If they are claiming and get these powers in regard to the rates of stamp duty, what is there to prevent them from having different rates in every province of the country? One province which wants more revenue may say 'we will double it'.

A.—Some sort of control may be vested in the Governor-General.

Q.—If you have that control, is that autonomy?

A.—It may not be. I am in favour of making these rates uniform and removing all inequalities. At the same time, I am doubtful whether it would be in consonance with the spirit of the times. Therefore, the nuisance of differing stamp duties is inevitable. But there is a limit. If a provincial legislature passed an Act doubling the present stamp duties, I think the people would raise a hue and cry and that Act would be repealed in no time.

Q.—The trouble will then be what provinces are to come into line.

A.—As far as the people are concerned, they don't trouble themselves with the rates prevailing in other places. They generally do not have a comparative idea of things. As long as they find that they are not heavily taxed themselves, they don't worry about the rates elsewhere.

Q.—In the next paragraph I do not quite understand the difference between the functions of the registration department and those of the agency which records the transfer of revenue registry.

A.—It is the revenue department, which maintains the settlement registers and other connected revenue accounts.

Q.—What does the registration department do?

A.—As soon as the transfer document is presented, if it is absolute, the registering officer requires the party to submit a transfer application in order that the name of the purchaser may be entered in the revenue accounts. The forms are filled up in the presence of the officer, and he attests them and sends them on to the revenue department. The business of the registration department is to keep the record of the document in the transcription volumes.

Q.—That is the evidence of the sale?

A.—Yes. Then it has got to go to the revenue department. It is only for the purpose of keeping the revenue accounts up to date that this thing is done. Otherwise, the seller continues to be shown in those accounts as the *pattadar*. In order that the name of the seller may be removed, this application is taken from the executor.

Q.—Why not amalgamate the registration and the revenue departments?

A.—Sir Charles Todhunter knows that we have been trying to reform in this direction, and we have been partly successful. But for some reason or other, the revenue department is very apprehensive in regard to the success of the scheme and therefore they have not consented to it; nevertheless, the registration department, as far as it is concerned, is trying to do its best.

Q.—What are the difficulties?

A.—The main difficulty comes in the subdivision of holdings. Supposing one full holding is transferred, there will be no difficulty, but when portions of the holding are transferred the difficulty comes in, as unless the subdivision is effected by the revenue department, the new holdings cannot be recognised as units. Another difficulty is that when parties appear before the registration officer, unless the registration officer himself has power to make enquiries in the villages, he will not be in a position to order the transfer in the revenue accounts. That power is now vested in the revenue subordinates, and that cannot be transferred to the registration officers who are stationary, and who may not be in a position to make any local enquiries.

Q.—Why not make over the functions of the registration department to the revenue department?

A.—That was tried long ago. Until 1875 or so the registration officers were the Tahsildars or Deputy Tahsildars and the inspecting officers were the Deputy Collectors or the Assistant Collectors; and the officer responsible for the whole registration department was the Collector himself. But later on, it was found very difficult for these officers to discharge those duties. When the registration work was in its initial stages, they were able to do it during their tours. But later on, they were not able to do the work; therefore a separate department was organised.

Q.—Surely they can do the work if the revenue department had not only its present staff, but additional staff equivalent to that of the registration department?

A.—Yes, some additional staff was given in the shape of some extra clerks, but the work was not done efficiently and therefore that system was found to be a failure, and this system of having a separate department manned by separate officers who are classed as District Registrars and Sub-Registrars has been found necessary.

Q.—Now you try to work the other way; devolving the functions of the revenue department on to the registration officers?

A.—Not all the functions, but the functions in regard to the transfer of lands. Now we have greater facilities to maintain the record of title in our office. The revenue officers have not got that facility.

The President. Q.—You will index all the transactions relating to each survey number?

A.—Yes, we write up a record of each holding from the revenue *chitta* Inam B register on the one side, and all the transactions which affect those lands are ledgered opposite the survey fields comprising the holding. Absolute transfer of lands from one *patta* to another are shown separately and distinguished from transactions of an ephemeral character such as mortgages, leases, etc. This enables us to grant encumbrance certificates very readily, whereas it would take about a week or so to collect the same information from the indexes maintained separately for each year. According to the new system, it will take only a couple of minutes to grant an encumbrance certificate. Supposing under the old system an intending purchaser wants to find out whether the land is free or not, he applies to the registration department for getting an encumbrance certificate, and then we take a week or so. As soon as we give him the certificate, he gets the deed executed. But under the new scheme which has been ordered to be introduced as an experiment in this district and Tinnevelly district, the purchaser simply goes to the registration office, pays the fees, looks into the register, satisfies himself with regard to the existence or otherwise of encumbrances, draws up a deed of sale and registers it then and there.

Q.—This means that registration of transfers below the value of Rs. 100 will have to be compulsory.

A.—Yes. That will materially help the accurate preparation of the record.

Q.—You give a quotation at the top of page 20 of your written statement; could you give us its source?

A.—That is from the Government of India's circular that has been communicated to the Local Governments.

Q.—Could you give us the reference?

A.—I will send it on to the Secretary.

Sir Percy Thompson. Q.—You say in 1923-1924, the actual figures show a surplus of Rs. 27,476 under stamp duties and registration fees put together. Has that position been altered now?

A.—No. They have been clamouring for the reduction in the Council, but the consideration of the question has been promised.

Q.—The fees are recognised to be too high?

A.—Yes.

Q.—The enhancement is supposed to be a temporary measure?

A.—Yes.

Q.—Have you examined the effect of those enhancements in particular cases?

A.—Yes.

Q.—Is there any evidence that it deters people from registering their documents?

A.—To some extent it does. I have prepared a statement to show that it has affected to some extent the number of registrations. Here is the comparative statement, which shows the general financial effect of the raising of the registration fees.

Q.—Can you give us particulars of individual cases, particularly of wills, because the fee is an indirect duty on testamentary documents?

A.—I shall have a statement prepared and send it on to the Committee.

Q.—Regarding the question of stamp duty, etc., you say that "the alternative seems to be to pool all the resources which are laid under contribution by the Government of India before deciding upon a division of the income from a particular tax or taxes." I do not quite understand what you mean by it.

A.—The revenue from all the provincial subjects may be added together, and a certain proportion which has to be paid to the Government of India may be determined.

Q.—That means the existing system?

A.—Yes. That is the present arrangement.

Q.—It is not an alternative to the existing system?

A.—No.

Q.—You advocate a duty of two annas for every Rs. 100 of nominal share capital as in England. The two annas which you propose work out at one-eighth of the duty.

A.—No, I have said one-eighth per cent.

Q.—The duty in England used to be 1 per cent, and this is, really speaking, a war measure, and therefore it is likely to be reduced. You would reduce the fixed fees, and the stamp duty payable on the Memorandum and Articles of Association, which is only 10 shillings in England but which is Rs. 30 and Rs. 50 here?

A.—Yes, I consider Rs. 30 rather too high.

Q.—Have you any idea what revenue it will produce?

A.—I have prepared a statement. The financial effect would be that there will be an excess revenue of Rs. 27,476 from companies in Madras. Annexure No. IV attached to my written statement will show this.

Dr. Paranjpye. Q.—What is the total income from the companies registered?

A.—The fee for registration of companies comes to about Rs. 16,143. I have given this also in my statement.

Sir Percy Thompson. Q.—Is it a practice in Madras for companies to register with a great deal more nominal capital than they are actually working with?

A.—Yes.

Q.—You think that the tendency to show this nominal capital would be checked by your suggestion?

A.—Yes, it will have some wholesome effect.

Dr. Paranjpye. Q.—Especially with regard to insurance companies?

A.—Yes.

Sir Percy Thompson. Q.—But then you may not get as much as Rs. 27,000.

A.—It may be. It might make some difference, but not a very material difference.

Q.—Then with regard to duty on shares, you say there is evasion of stamp duty on the transfer of shares, etc. Your suggestion is that a return in the form annexed of cases of transfers of shares in the case of every company should be filed with the Registrar. Do you mean, annually?

A.—No. Every time the transfer takes place. If the company sends a return of transfer to the Registrar, he will scrutinise the transfer with reference to the transfer deeds.

Q.—Is it not a cumbrous procedure?

A.—No. For every allotment that is made by the company, we get a statement from the company and we do not find any difficulty at all.

Q.—Surely the simpler way of doing it will be to require every transfer to be adjudicated before its registration.

A.—But that it will be a hardship.

Q.—Why so ?

A.—Because they do not know what stamp duty they have to pay for transfers.

Q.—Getting of adjudication of stamp duty will be a simple matter. Why should you put the onus on the Registrar of the Company, why not on the transferee?

A.—I was proposing the same procedure as is adopted in ordinary registration. When a stamped document is filed before the Registrar and it is understamped, he impounds the document.

Q.—You have power to examine these transfers in the office of the company? I thought you meant to examine these transfers at the office of the company.

A.—No, they are filed along with other documents, such as ordinary mortgage deeds, and they will be examined in our office.

Q.—If they are filed, you can check the stamp duty?

A.—Yes.

Q.—Why do you want this return?

A.—We do want the return along with the transfer deeds. We do not otherwise see the transfers at all except in the annual list.

Q.—Is the registration department entitled to look into the books of any company to see whether the proper stamp duty is paid or not?

A.—We have no power to overhaul these records to see whether the proper stamp duty has been paid or not.

Q.—Suppose you have the power to inspect the office of the companies?

A.—That will entail a good deal of establishment.

Q.—In England we have got that power.

A.—Here, we have not got those powers.

Q.—I cannot see how it is justifiable if you have a registrar who is doing this work and to give the company the trouble of sending the return to you. I should have thought, if you have power to go from time to time where there is any suspicion and inspect the transfers to see whether they are properly stamped or not, it is sufficient for your purpose.

A.—Even then, we can do that only in the case of few companies, which will require a larger number of officers. Whereas, as the department at present constituted, there is only one District Registrar for the whole district.

Q.—I should have thought the total time involved in visiting the offices from time to time would be less when compared to the time involved in your scheme.

A.—I do not think so.

The President. Q.—Have you studied the principles underlying the rates of stamp duty and registration fees?

A.—I invite your kind attention to page 194 of the Indian Stamp Manual. I have studied the instructions, and have some suggestions to make. Please see paragraph 80, instrument of hypothecation of movable property, where such hypothecation is made by way of security for the repayment of money. These hypothecations are filed by companies under section 109 of the Indian Companies Act. Where they are attested, they are subject to stamp duty, and where they are not attested, they are exempted from stamp duty under the Government of India Circular, 387 F, dated the 14th February 1918, page 197 of the Madras Stamp Manual. I cannot understand the principle under which they are exempted.

Q.—How does that circular derive its legal sanction?

A.—It is a notification under the Act.

Q.—You do not understand why there should be any distinction?

A.—No, Sir. My suggestion is that they should not be exempted whether they are attested or unattested.

Another suggestion which I want to make is this. Newly formed companies very often take over going concerns and the property so acquired consists generally of goods, good-will and other assets and usually the consideration for such purchase is the allotment to the vendors of shares

equal to the value of the property taken over. The agreement evidencing such transfer is generally stamped now with twelve annas stamp, Article 4 (c) of Schedule I-A, Madras Stamp (Amendment) Act, 1922; but where it is clear on the face of the document that it is not a mere agreement but a regular conveyance, full duty at conveyance rates is levied. To quote a specific instance, the firm of M. R. M. Ramaswami Chetti was taken over by a newly registered company of the same name, viz., M. R. M. Ramaswami Chetti and Company, Limited. The particulars of contract evidencing this transfer were recorded on a twelve annas stamp paper but both the Collector and the Revenue Board held that the contract was a conveyance and should bear a stamp duty of Rs. 1,522-8-0. As the agreement pertains to initial allotment of shares it cannot strictly be viewed as an agreement for sale of shares stampable under Article 4 (b) of the Madras Stamp Amendment Act, 1922. In my note I have therefore suggested that special provision should be made in the schedule in regard to the stamp duty on agreements of the kind in question.

Mr. C. GOPALA MENON, M.L.C., Madras, was next examined.

Written memorandum of Mr. Gopala Menon.

Incidence of Taxation.

Q. 1.—Annexure A-2 (i)—*The estimate of areas sown.*—In this Presidency this is ascertained on the reports mostly of the village officials which are off and on checked by the Revenue Inspector and probably also by the Tahsildar. The experience is that the Settlement being made once in 30 years, they only rely upon the figures obtained at the time of Survey and Settlement and are indifferent to make periodical revisions, except, perhaps in the case of second crop.

To judge the estimate of outturn by the areas sown instead of the actual outturn is particularly a hardship especially when in all the parts of the Presidency there are not sufficient irrigation facilities.

(ii) *The estimate of normal crop.*—The present method of obtaining the estimate of normal crop by arbitrarily taking up isolated plots cultivated and arriving at the normal crop return is unreliable. In the first place the area selected often is not typical at all of the tract; in the second place, it is cultivated under the best conditions and with the best appliances with the help of expert advice from the Agricultural Department such as manure, rotation, etc. In the third place what are called normal conditions do not exist at all, at all times and in all places. The crop returns obtained on this data by the revenue officials do not form the just basis for assessment.

(iii) *The estimate of the crop for the year based on the normal crop estimate.*—The estimate of the actual crop being made in terms of the normal crop which I criticised above as defective is for that very reason unreliable. The method of calculation given in Annexure A for arriving at the actual crop estimate may be correct, but the data upon which the calculation is based are, as explained above, inadequate and unreliable.

In order to remedy the defects of the present system of obtaining agricultural statistics, I would suggest that the work should be taken out of the hands of the subordinate revenue officials, who are more often overworked and underpaid, and this work should be entrusted to a *Department of Statistics* in all Provincial Governments with especially trained itinerant staff who possess the required qualifications for collecting such information.

Q. 2.—Find out the area cultivated for a series of years—say ten—five years will not be enough to give the average—the gross income from the areas cultivated according to the average prices ruling for the same period for the different crops in different areas.

With regard to the estimates arrived at by different economists, the war period should not be taken into account for the reason that extraordinary factors have operated during those years, that is why it is better to take a series of normal years and arrive at the average income.

Q. 3.—Income-tax returns are incomplete, as in the first place income from land is not assessed in India. There are no death duties in India.

Q. 4.—A bill similar to the one now introduced in the Bombay Legislative Council referred to in question No. 6 may be introduced. In addition to this statistics of all employees in all public services together with their income may be maintained. I would also suggest the registration of all trading companies both private and joint stock.

Q. 5.—Not worth while. So I will not advocate such legislation.

Q. 6.—I agree to all-India legislation on similar lines.

Q. 7.—This has value because it will give an idea to the Government of what the economic condition of the people in this country is, and it will help them to impose new taxes after arriving at the probable taxable capacity of the country. These estimates in conjunction with the estimates of family budgets of all grades of people should form the chief factors for determining the incidence of taxation.

Q. 8.—I wish it were possible to conduct an economic enquiry with reference to each district, if not each village.

Q. 9.—Agricultural, non-agricultural and professional. To arrive at the real incidence we should take into account not only those that pay direct taxes, but also all those that contribute to the State in the form of indirect taxes. Take the taxes paid both direct and indirect and divide it by the total population.

Non-tax Revenue.

Q. 13.—As the Government commercial undertakings are pioneer industries for the purpose of leading the people in the country to undertake such concerns, and as they are started only as a model for them to imitate, a bare return on the capital invested would be sufficient. The Government should hand over such concerns the moment people themselves are fit to run such undertakings of their own and shall not tax them till they grow strong and yield a real steady profit.

No element of tax appears in the case of (a) but it does in the other two cases (b) and (c).

The policy of Government should be not to make any profit in their commercial concerns as they are so vital for the economic welfare of the community.

Payments for services rendered.

Q. 18.—The dues levied for the safety of shipping at a port are only indirect taxes levied on the general tax-payer as much as these dues are taken into account to arrive at the net value of the goods.

Q. 19.—Such taxes are imposed for particular purposes to meet the needs of particular localities and cannot therefore affect the general incidence of taxation and such taxes should not be taken into account in arriving at the incidence of taxation generally.

Q. 20.—Taxes for certain local services which are inevitable for life in the locality need not be distinguished from those taxes levied for general purposes to arrive at the incidence of taxation for that particular locality. On the other hand taxes which are quite optional may be omitted.

Optional Taxes.

Q. 21.—No taxes should be considered as voluntary because the tax-payer's general tendency is to avoid paying taxes. But at the same time it should not be excluded in estimating the burden of taxation. It may be true that economists have differed in their view on voluntary and compulsory taxation, but in these days when it comes to a question of paying taxes voluntarily, people would rather try to avoid it than pay.

Q. 22.—Voluntary taxes are very few. If any, they are taxes on luxuries, which are liable to be regulated by the consumer.

Q. 23.—It may be so in the case of tobacco. But the case is different with intoxicating liquors as it imposes economic burden.

Q. 24.—I do not oppose entertainment taxes. The tax on entertainments is a tax on luxury and it is optional also. In India, railway travelling has almost become a necessity and any tax imposed on it will be a tax on a necessity of life.

Q. 25.—Yes. Drinking and non-drinking classes. We should exclude the excise revenue in estimating the burden of the non-drinking classes.

General Principles.

Q. 26.—The principles enunciated by Adam Smith are (1) Ability to pay, (2) Certainty of the amount, (3) Convenience of the contributor, (4) Economy of taxation: The other suggestion is that there should be equality of burden among all classes according to their capacity to pay.

Incidence on the poorest classes and Poll Tax.

Q. 27.—Test for exemption is inability to pay. The objection for every member of the community to pay a tax of some sort—is that it is not possible to distribute the advantages among all people and charge them in proportion. The second suggestion of equality in taxation—all are equally benefited by the State; why should not all pay equally for these advantages. The method of equal contribution per head would be impossible, besides it is extremely unjust. Therefore we come to the generally accepted principle "ability to pay" as the best test for taxation. It may be assessed on property, gross income or net income. The taxation may be proportionate or progressive. In the first instance, income is taken as the standard, and the amount of public burdens regulated by it. Progressive taxation is more equitable.

Q. 28.—Taxation may be the proper basis for representation, but as universal adult suffrage is the ideal form of representation, capacity to pay taxes alone should not be taken as the basis for franchise.

Q. 29.—Only direct.

Q. 30.—No. It is objectionable being a compulsory tax.

Income-tax.

Q. 33.—Yes. I enclose a statement* giving the rate of increase I suggest for different grades of income.

Q. 34.—I prefer the present scheme of graduation, which in my opinion is satisfactory. We need not adopt any other scheme of gradation.

Q. 35.—No differentiation necessary. Very difficult to find out.

Q. 36.—Proceedings of inquisitional nature are necessary and cannot be avoided. The only way is to conduct a survey for the purpose or take census statistics.

Q. 37.—Super-tax in 1922 was imposed as an emergency measure. I am of opinion super-tax as such may be abolished but the rate on higher incomes where super-tax is now imposed may be increased.

Q. 38.—I am not in favour of removal of exemption of incomes derived from agriculture given under Act 2 of 1886 so long as the present land revenue system is continued.

I would like to draw a distinction between the earnings of a farmer and the incomes of the absentee landlord in this Presidency. From the latest Census statistics, it will be observed that the following is the proportion of landowners, tenants and labourers:—

Distribution of 1000 actual workers in agriculture.

Description.	1921	1911.
Non-cultivating landowners	49	23
Cultivating landowners	381	426
Non-cultivating tenant	28	4
Cultivating tenant	225	207
Farm servant	109	340
Field labourer	208	

Q. 39.—I cannot vouchsafe to the correctness of the figures, but if the system is adopted there will be a substantial additional income to the Government and a relief of burden to the poorest classes by taxing agricultural incomes including those from the permanently-settled lands.

Q. 40.—Most of the income-tax assessees are generally persons who live in towns where the cost of living is high. So the limit should not be reduced.

Q. 41.—After the introduction of the new system of income-tax control, the assessees are furnishing a true statement of their accounts and so there is nothing to say against the present system of working.

Q. 42.—It would be better if accounts are maintained in a standard form by all classes of people whether private or trading firms whose incomes are subject to income-tax.

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* Not received.

Q. 44.—The issue of income-tax-free securities is unnecessary.

Q. 45.—Bearer securities do afford facilities for evasion. So I approve of the idea of collecting tax by means of a special stamp duty on coupons.

Q. 46.—Yes.

Q. 47.—I prefer on the three years' average as in England.

Taxes on consumption.

Q. 48.—1. Those who do not contribute direct taxes are the poorest in the country and the best way of reaching them would be to tax articles of consumption. But in order that their standard of living might not be reduced the taxes should be low and on as few articles as possible. The taxes on luxuries touch only the higher classes and may be heavier but consistent with steadiness of income.

2. The thing that strikes me is that by putting a tax on smoke or on drink at a certain limit, it is possible to increase efficiency if proper control is exercised in the sale of those articles.

3. The idea that luxuries alone should be taxed relieving necessaries altogether is only the ideal but not practicable. It is, however, necessary to judiciously impose duty on necessaries as low as possible and tax the luxuries as high as is required for revenue purposes. In fact there should be a judicious combination of taxes on luxuries and necessaries of life. A tax on necessaries is an inevitable evil.

Q. 49.—The articles that I would suggest for the purpose of levying a moderate excise duty are, (1) Cigarette papers, (2) Coffee, (3) Patent medicines, (4) Perfumery, (5) Playing cards, (6) Raw sugar, (7) Petrol, and (8) Toilet articles.

Q. 50.—It is good in principle when it can be applied to articles like whisky, tobacco, etc., but consumption of these articles in this country is confined to limited class of people and if a graduated scale of duty is levied on certain other articles the trouble and expense involved in collecting the duty may not be worth the trouble and expenses involved.

Salt.

Q. 51.—The theory of salt duty enunciated in the quotation cannot be applied to India where salt is so important an article of food. The average income per head of population is hardly sufficient to meet the bare necessities of life, and any tax on salt would be a real hardship. It is found by experience that in years when there was an increase in duty the consumption of salt has declined, and that medical opinion is strongly in favour of an irreducible minimum consumption of salt.

Q. 52.—The poor classes in the country have already been burdened with duties on other articles equally necessary for subsistence, and it is difficult to suggest an equivalent article in the place of salt. I do not, however, mean that the salt duty should remain. The only solution is that the revenue of, say, nearly three crores obtained from salt should be recouped by retrenchment in other directions.

Q. 53.—The rate of salt tax in India cannot be compared with those in other countries as the figures given relate to the taxation per head of population and in India it is Rs. 1-4-0 per maund. The rate in India is considered high as the income per head is comparatively low.

Q. 54.—I prefer Government manufacturing salt and selling at cost price.

Q. 55.—Yes. I favour large scale manufacture under Government control.

Q. 56.—I favour the imposition of a protective duty provided there is scope for the development of salt industry. The question of a consumer in a particular part of the country need not come in the way of the imposition of a general tax on salt.

Q. 58.—I advocate the sale of salt by weight throughout the country as salt is taxed by the weight. It will also lead to uniformity. Care should be taken to prevent adulteration.

Q. 59.—Yes. As I propose that Government should have the control of manufacture, it logically follows that Government should open depots for the convenience of the public.

Q. 60.—Yes.

Excise on Liquors and Drugs.

Q. 61.—We advocate, and we hope will succeed in adopting a policy of total prohibition at an early date.

Q. 62.—I enclose a statement* of the views on the points raised in this question submitted to the Government of Madras by the Madras Temperance League, of which I am one of the Vice-Presidents.

Q. 63.—I accept all the statements except the last one.

Q. 64.—As a measure of taxation the Excise policy in our province may be considered not bad.

Q. 65.—All rates below Rs. 10 per proof gallon are certainly low. It is possible to reduce the variety as well as to introduce a uniform rate in all the provinces keeping the rates as high as possible with a view to get maximum revenue and reduce consumption.

Q. 66.—I do not believe. The increase in illicit production, if there be, is not due to increased rates.

Q. 67.—Locally-made liquors may be taxed at the tariff rate and if deemed necessary the restrictions now imposed may be relaxed.

Q. 68.—Yes.

Q. 69.—Transportation of foreign liquor from one province to another should be permitted under special licenses which must be subject to duty when transported.

Q. 70.—Freshly drawn sweet toddy as is known in this presidency is not taxed, for it is not an intoxicating drink.

Q. 71.—I am for a uniform high and prohibitive rate, as my idea is total prohibition of these articles.

Q. 73.—From the point of view of taxation it is a satisfactory method.

Q. 74.—It is true that the restriction in the number of licenses has to some extent resulted in the increase in the value of those remaining shops. But the advantages gained are not the same as those resulting from monopoly.

Q. 75.—It is necessary to arrive at some sort of uniformity. I believe it is possible to do so.

Customs.

Q. 78.—Leaving out the question of protection, tariff should be imposed on as many imports as possible to enable Government to get adequate revenue and also to relieve the consumers paying higher prices if tariff is imposed on a few articles, which must necessarily be articles of large imports. In any case articles considered as useful for developing industries such as machinery, etc., should bear a light tariff.

Q. 79.—In my opinion the present rates of tariff imposed are sufficiently high as compared with the pre-war days. But I do not think there have been any diminishing returns. As regards smuggling it is difficult for me to express any opinion. Old rates were at the rate of 5 per cent on imports generally, 1 per cent on iron and steel, but now the rates on imports are 2½ per cent, 10 per cent, 30 per cent, while cotton piece-goods, cotton yarn, sugar, petroleum, matches, liquors are taxed at special rates.

Q. 80.—As the present tariff rates are far higher than the tariff in force before the War, I do not think any increase can be made without reducing consumption, which must necessarily affect the revenues from customs duties.

Q. 81.—I would recommend the imposition of *ad valorem* duty as far as possible and bring in it the same grades of articles. To cite an example I notice from the Customs tariff list that a specific duty of 30 per cent is imposed on silk, which is a textile and a duty of 11 per cent *ad valorem* on cotton piece-goods. Silk being a costlier article, I do not object to the imposition of a higher percentage of duty, but in order to make a scientific classification all textiles whether silk or cotton goods should be brought under one heading and an *ad valorem* duty should be imposed.

Q. 82.—Export duty can be imposed for revenue purpose with advantage in the case of oil seeds, tobacco, increased export duty on tea, coffee. I

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* See Annexure on page 40.

also recommend an export duty on such articles in which India enjoys a virtual monopoly, say for instance, jute, lac and its products, manganese and all kinds of manure and oil-cake, tobacco and skins and hides.

Q. 83.—I favour *ad valorem* as far as possible.

Q. 84.—I would suggest a revision of tariff valuation to be done once in six months instead of once in a year to give effect to any fluctuations in the market.

Q. 85.—The only suggestion I have to make is that the appraisers should be more in touch with the market.

Taxes on Transactions, Fees and Licenses.

Q. 87.—The list of taxes suggested in Annexure K, cannot be imposed as a substitute to any of the existing taxes though they may be treated as additional taxes. I suggest taxing betting, entertainments, motor cars, and safe deposits.

Q. 89.—With regard to judicial proceedings the stamp duty should be so limited as to pay the cost of the administration of justice only.

Q. 90.—I agree.

Q. 91.—The evasion is mostly in the case of bearer shares, which are of course introduced in all progressive countries at the present time.

Q. 92.—Stamp duties, registration fees, court-fees, are collected more as taxes than to meet only the expenses for the services rendered.

Q. 93.—This stands on a different footing. Fees levied for proceedings should be very low so that justice should be within easy reach of even the humblest citizen of the State. Registration fees on the other hand are levied only in the case of transactions which are conducted only by those who can afford to do them. So a higher sum can be levied.

Q. 95.—I would not raise the existing taxes but would prefer to see the extension of entertainment tax.

Land Revenue.

Q. 96.—While a tax is a compulsory assignment of the wealth of a person or a body of persons for the service of the public powers, net rental from land in India is in practice rather a relinquishment of part of the profits of land by the Government to the landowners.

Q. 97.—Yes. The land tax certainly affects the prosperity of the cultivator, as the land is mostly the only means of his subsistence. Any increase in rates of assessment affects his prosperity. Subsidiary occupations are rarely followed, agriculture being the main industry in which the whole family engages itself.

Q. 98.—I wholly agree with the first three statements quoted. The fourth statement is not wholly true as the persons in charge of revenue collections also discharge other equally important duties, for example, village officers in Madras Presidency.

Q. 99.—The inequality referred to is unavoidable as prices differ naturally in different places and at different times. This can be avoided by taking the average for the period of settlement taking into account only the normal years.

Q. 100.—Rs. 2,000 a year is certainly a modest limit for subsistence. It is possible to ascertain an agriculturist's income by the taxing officer though this may involve some labour and cost. Fractionization of holdings particularly in joint families may be the result.

Q. 101.—The idea of imposing a tax to check fractionization is the only remedy. The other method that suggests itself to me is some sort of legislation against fractionization.

Q. 102.—The application of the principle enunciated will be highly detrimental to the development of agriculture in this country. If a particular land gets any benefit from a particular scheme of irrigation, the ryot will be made to pay for the supply of water. For other improvements the ryot who takes up the land is mainly responsible and he should certainly get all the benefit even of ownership. As for unearned increment of the value of the land if any, may bear a taxation as in all advanced countries.

Q. 103.—I strongly support that this field of taxation should be wholly transferred to the local authority which would result in the removal of all complications in the collection of quitrent, ground rent, house tax etc.

Q. 104.—1. This method cannot give exact and real incidence of land revenue as even non-agriculturists are included in the total population.

2. This method will give only the average amount of land revenue per acre of the cultivated area and not the amount paid *per capita* by the agriculturist.

3. The soils differ so much and their classification is so arbitrary that a comparison of the assessments on different soils will not give real comparative incidence of land revenue.

4. This also is arbitrary and unreliable as it will be very difficult to get exact rents or annual values particularly in the rural parts of the country.

5. This is preferable but it is very difficult to arrive at the gross or net produce, which under the present methods adopted by Government is not quite satisfactory. But the method of arriving at the average net produce should be by allowing for expenses of cultivation, rent, interest on capital, average mortality of cattle and failure of crops. I would add that irrigation cess should also be taken into account and then land revenue may be expressed as so much percentage of net produce.

Minerals.

Q. 105.—No further taxation need be imposed especially as mining is a nascent industry in the country and nothing should be done to handicap its progress.

Land Taxation.

Q. 106.—I agree.

Q. 107.—I would suggest the inclusion of taxes on advertisements, amusements and gambling to be also brought in under Schedule II. The local authorities may be given the discretion to impose any or all the taxes mentioned in Schedule II without the previous sanction of the Local Government.

Q. 108.—With regard to house, land tax and land cess, nothing can be said against it from an economist's point of view and they need not be discontinued.

Q. 112.—That owner, *i.e.*, landlord, should be held responsible for all the taxes. The burden is generally shifted on to the occupier by raising the rent.

Taxes not at present levied in India.

Q. 119.—I am not in favour of any of these taxes mentioned, as we are industrially backward.

Q. 120.—1. It is a good idea no doubt, but the difficulty of finding the size of a joint family which varies even during the same year is very great. Moreover, the deductions to be made according to the size of the family will need very careful investigation lest any hardship be caused by not providing adequately for the family.

2. I am in favour of income-tax on agricultural incomes by excluding agriculturists who are paying land revenue at present below Rs. 250.

Succession duties.
Tobacco monopoly.
Tax on motor car and other vehicles, horses.
} I am in favour of a reasonable tax on these.

3. Owing to influences of western education and modern ideas I believe the system of dowry is rapidly disappearing and no tax need be thought of.

4. I agree to the proposals which are reasonable excepting the universal house duty and increment value duty.

5. I agree to these except the last one, because in India marriage is still considered a sacrament and any tax on marriage will be against the sentiment of the people.

6. I don't agree to the method suggested as it will affect the trade of the country.

Tobacco.

Q. 121.—I entirely agree with the views stated.

Tobacco used for medicinal purposes may be exempted.

Q. 122.—I advocate a duty on tobacco raw and manufactured exported from the country. As regards the duty on tobacco consumed in the country the shopkeepers and manufacturers should obtain licenses to deal in tobacco, and these license holders will be under the control of the Excise Department.

Q. 123.—I think the practice adopted in the case of opium may be applied here also.

Q. 129.—No limitation of tax for domestic purposes.

Q. 132.—I propose half the present rate of customs duties as excise duties.

Q. 133.—I am in favour of *ad valorem* duties.

Q. 134.—The increase in the imports of manufactured tobacco is due to the increased craving for cigarette smoking.

I do not think that the local trade in cigars will be affected very much.

Q. 135.—Except the *beedies* and certain qualities of cigarette made in the country, the rest are all prepared out of imported manufactured tobacco.

A moderate excise duty for the purpose of revenue may be imposed while import duties also may be increased to that extent.

Q. 136.—Yes. I am in favour of (c).

Duties on inheritance or succession.

Q. 137.—Yes. I agree to the imposition of an inheritance duty.

Q. 138.—I refer to the views contained in the Memorandum of the Madras Temperance League enclosed, with which I agree.

Q. 139.—1. The tax on inheritance should be graduated and should be progressive in time. The rate should increase with the number of times the taxed property changes hands by inheritance.

2. I cannot agree to this view.

3. I agree with the view expressed by Prof. Taussig as this will be a tax like the income-tax.

Q. 140.—The schedule of rates to be charged in India may be more or less the same as in Japan.

Q. 141.—I am in favour of taxing the share of the property of the deceased and the tax should be the first charge and the successors should obtain a succession certificate from the court before getting possession of any property.

Q. 142.—Yes. It is quite possible.

Q. 143.—I agree with the view expressed by Sir James Stephen and plead for the exemption of small property from the tax.

Q. 144.—By appraising. It is done now in the case of disputed succession.

Q. 145.—The Central Board of Revenue recently created.

Q. 146.—The exemption limit in my opinion should be Rs. 3,000.

Division of the Proceeds.

Q. 147.—I am in favour of a combination of the third and the fourth method preferably the third only. But in view of my suggestion that the inheritance tax should be administered by the central authority as in the case of the income-tax, I suggest the combination of both.

Q. 148.—The revenue upon which Central Government now depends is more or less of a commercial character, such as Opium, Customs, Income-tax, Salt, etc., and so fluctuations are always probable.

Q. 149.—The basis of separation of revenue is not quite satisfactory. The present division must be a handicap now to Bombay and possibly in the future to other provinces as well in so far as the Central Government takes to itself with the ample and elastic income-tax revenue leaving the less elastic source, land revenue, etc., to the Provinces.

Q. 150.—An effective remedy would be to continue the third method coupled with the fourth, the basis of distribution must be in certain proportion dependent not on the increased assessable income as it obtains at present, but on the income assessable itself. If this principle is accepted, there will be no difficulty for arriving at the rate to be allocated for the Provincial Government.

Q. 151.—Yes.

Q. 152.—I accept this statement.

Q. 153.—I do not think this is necessary.

Q. 154.—No.

Q. 155.—I would like to treat tobacco in the same way as excise.

Q. 156.—I have already suggested that succession duties should be centrally administered. I think a division of the proceeds is quite practicable. Central Government may retain the exact cost of collection and adminstration making over the rest to the Provinces concerned.

Q. 157.—In my opinion similar consideration does not exist in the case of stamp duties. With regard to the distinction between Judicial and non-Judicial stamps, the present system works all right.

Q. 160.—I agree generally.

Q. 161.—There is no need to impose any limit by law. Legislature has power to interfere in the matter.

Machinery of Taxation.

Q. 163.—I advocate State enterprise in these cases.

Q. 164.—No. I do not support monopoly of such services.

Q. 165.—I approve the principle of monopoly in the case of Salt, Tobacco, Petroleum, Explosives and Spirits.

Q. 166.—Contract supply system should be abolished and the present method of administration of Salt may be usefully adopted in the case of articles suggested in answer to Q. 165.

Q. 167.—I think it is applicable in the case of income-tax and succession duties.

Q. 168.—In view of the recent changes brought about by the creation of special income-tax department and the transfer of functions relating to Local Self-Government to non-official bodies, the portion of the land revenue staff known as the Deputy Collectors in this province may be abolished. The revenue functions which they are now performing may be usefully transferred to the Tahsildars, and the magisterial function may be transferred to the judicial officers. In localities where the Deputy Collectors are performing treasury duties may also be taken away and the branches of the Imperial Bank may be vested with that work.

Q. 169.—The bifurcation has neither affected the efficiency nor increased the cost. I do not think that any new combination is feasible or advisable.

Q. 170.—Succession duties may be administered by the Central Board of Revenue through the Income-tax Department.

Q. 171.—It is desirable to place the assessing officers independent of the electorates which must naturally consist of assessees.

ANNEXURE *RE* QUESTION No. 62.

Madras Temperance League's Suggestions for Taxation.

The following memorandum has been submitted by the Council of the Madras Temperance League to the Minister for Excise relating to the taxation to make up loss in the Excise Revenue.

When the Deputation of the Madras Temperance League waited on the Minister for Excise and represented the need for carrying out some urgent reforms in the Excise Administration of the Province, financial difficulties were raised. The Council of the League is fully alive to the fact that nearly one-third of the revenues of this Province is derived from Excise and that sudden reforms with a view to attain the goal of prohibition will seriously dislocate the finances of the Administration. We do not anticipate however, that the Licensing Board or the Advisory Committee would immediately remove all licenses. This will be done gradually and therefore the diminution of revenue will be gradual. There is no denying the fact, however, that additional sources of taxation must be tapped, and in doing so the Government should bear in mind that the wealthy, on whom the burden of taxation is comparatively light now, should bear the main burden of the new taxes. The suggestions made below have been framed bearing this principle in mind.

Surcharge on Income-tax.

At present the local bodies are allowed to levy a cess on the land revenue. We do not see any reason why the Provincial Government should not be allowed to levy a surcharge on income-tax. We take leave to quote from Dr. Mathai's valuable contribution to this subject, "If we consider the burden of taxation which now rests on the great majority of landholders and if we consider also the rate at which incomes are taxed in other countries, there is a great deal to be said for the view that non-agricultural incomes in India may legitimately be asked to bear a larger share of the burden of taxation." Objection has been raised that levy of a surcharge might tempt capital to flow out of a heavily taxed Province to one lightly taxed. We do not think much weight should be attached to this objection. Super-tax, excess profits tax, etc., were levied and super-tax is being levied now by the Government of India. But that has not caused any flow of capital out of India. The fact is that capital flows into the province where the possibilities of industrial development are great, and the levy of surcharge will not affect the profits made by industrial concerns to such an extent as to drive out capital to other provinces. It is not the tax so much as the prospects of getting profits that will prompt investment of capital. We also suggest that the rate of surcharge shall be framed on a graduated scale, rising with the incomes derived, those with small incomes being exempted from it. For this purpose we propose that all those with incomes above Rs. 2,000 per annum should be subjected to this tax. In view of the high cost of living, we are not in favour of reducing the taxable income to Rs. 1,500 as suggested by Dr. Mathai in the book already referred to.

Super-tax on Land Revenue.

We favour super-tax on land revenue as a source of additional revenue. We are fully conscious of the fact often urged that land in this Presidency is already heavily taxed, and that the burden on small landholders is far too heavy. But at the same time we feel that agricultural incomes of certain class of people are comparatively lightly taxed, *e.g.*, the incomes of zamindars. We are in favour of levying income-tax on agricultural incomes of permanently-settled estate holders. While at every resettlement rates of assessment on ryotwari lands have generally been raised, the permanently settled areas have been till now immune from additional taxation. In fasli 1332 (1922-23), estimated revenue realized by the zamindari was Rs. 2,52,85,894 and the peshkash payable to Government was only Rs. 49,79,964. Moreover, according to quinquennial statement for 1919, the average incidence of land revenue per head of population in the ryotwari tracts was Rs. 2-0-6, whereas it was As. 8-8 and As. 11-11 in inam and zamindari tracts respectively. This also shows that the *peshkash* and quitrent (shrotriam jodi) received now, is comparatively very little. These areas enjoy as well equally with the ryotwari tracts the benefits of good Government. It is but right they should also contribute towards the increased cost of the services rendered to them. The revenue derived by this means should wholly form part of the Provincial revenue. As we think the graduated scale adopted by the Government of India in assessing income-tax should be adopted for the purpose of assessing income-tax on agricultural incomes of permanently settled estates, the Provincial Government will surely get a considerable amount and that too without any additional expense for the purpose of assessment and collection. But we are also in favour of the suggestion made for levying a super-tax on land revenue. For this purpose all landholders paying land revenue assessment of Rs. 1,000 and above shall pay super-tax on a graduated scale, the tax payable increasing with the amount of land revenue paid. We have fixed Rs. 1,000 taking into consideration the fact that land revenue assessment is fixed at 50 per cent of the net income, and that in regard to income-tax only those earning more than Rs. 2,000 are liable to surcharge on income-tax. The graduated scale adopted may be the same as that for surcharge on income-tax. This is a feasible method of taxation by which both agricultural and non-agricultural incomes are treated in the same way as in regard to taxation. In fasli 1330 (1920-21), there were 782 single *pattadars* and 2,591 joint *pattadars* paying over Rs. 1,000 land revenue assessment. The assessment derived was Rs. 12,59,372 and Rs. 2,87,931 respectively.

Death and Partition Duties.

The Death Duties are a method of direct taxation of property passing at death to those entitled to it according to law. As Robinson, in a recent book on Public Finance (Cambridge Economic Series), says, the Death

Duties may be graduated on any of the following principles: "They may vary with the size of the estate left, with the degree of relationship of those who inherit the property of the testator, or with the amount inherited by each individual heir." In England there is the Estate Duty which varies with the degree of consanguinity. In India it will be necessary perhaps to have the tax graduated according to the value of estates left to the joint family or to each individual heir, as the case may be. This basis of taxation, in the opinion of many economists, is fair and reasonable. But we believe there are many instances in this country where the property at death of persons having no direct heirs is inherited by relations, who according to the Hindu Law are entitled to succeed to the estate. In such cases the second principle enunciated by Robinson can be safely adopted, as in their case the duties amount to "imposing an additional tax where the heirs may be reasonably regarded as having no natural claims on the testator." In the book above mentioned, another principle has also been mentioned and propounded by Professor Rignano. It is that "a tax on inheritance should be progressive in time. The rates of tax should increase with the number of times that the taxed property changes hands through inheritance." The Council of the League is of opinion that all the principles stated above can be applied to inheritance of property either by joint families or individual heirs. The adoption of these proposals may necessitate that all heirs to property should, on succeeding to the property, make a declaration of the value and nature of the property and obtain a succession certificate from the Court.

We also advocate Partition Duties. The joint family system is slowly passing away. It is not our purpose to enter into a discussion on the subject. But we think we should recognize the existence of this fact and impose Partition Duties. Whenever an estate or property is partitioned, either it is done through the Court, or the partition deed is generally registered in a Registration Office. Partitions to be valid must be registered. We plead for such a law. So there will be no difficulty in estimating and levying these duties. They may vary according to the value of the estate or property, if necessary exempting properties of smaller value, say about Rs. 1,000.

We are aware of the objection generally brought forward against our proposal for Death Duties, that the Hindu Law raises very many difficulties and that considerable difficulty will be experienced in arriving at the correct estimate of the value of property. As regards the difficulties that arise owing to the Hindu Law, we feel they are not insuperable. Our proposals do not necessitate at all any change in the present system of inheritance. The Bombay Excise Committee have recommended Death Duties and we understand they have done so after very careful consideration. We also understand that much valuable material has been collected by the Bombay Government on this subject.

Tea and Coffee.

From the statistics available we are informed that in South India about 91,900 acres of land are under Tea cultivation and the total production in 1922 was 36,547,000 lb. In 1922-23, 30,386,551 lb. of tea worth Rs. 202.51 lakhs was exported from this Presidency to foreign countries. This includes the quantity of tea produced on the estates in the Indian States also. But if a duty is to be levied, it must be in respect of all tea that passes out of the British Indian ports in this Presidency. At present the Government of India levies an export duty of Rs. 1-8-0 on 100 lb. If a surcharge is levied on this duty it will not entail any additional expense on account of collection, etc. This is more feasible than duty imposed on every 100 lb. of tea produced on the estates. But the Government can choose any method they may find convenient. All that we ask for is that surcharge on tea, either produced in this Presidency or exported from this Presidency, shall be levied. We suggest the same course in regard to coree. In 1922-23, 162,045 cwts. of coffee worth Rs. 119.63 lakhs was exported from this Presidency. Duties both on coffee and tea are sure to bring considerable amount of revenue.

It may be said, imposition of a duty in addition to that already levied by the Government of India is likely to affect the Tea industry of this Province. We beg leave to give extracts from an article on the subject of Tea industry contributed by Sir L. C. Money to the "Sunday Observer" and reproduced in the "Statesman" of 30th October 1924,

"The demand for tea at home and abroad is increasing more rapidly than the output. The statistical position is thus all against the consumer and in favour of the tea companies, which are enjoying unbounded prosperity. Not a few tea companies are now earning fifty to one hundred per cent on their capitals, and many of them have accumulated magnificent reserves. Tea shares continue to rise, and in some cases are now worth five or six times the quotations of the lean period after the War."

Sir Money gives figures showing the prices at present as compared with those last year and also the appreciation shown in the prices of shares. We shall quote only those relating to South India—

	Past week for lb.	Corresponding period 1923.
	s. 1,980	*s.* 1,598
Share value	£2	£2

In these circumstances, we do not at all think that a duty imposed can ever have any effect in reducing the output. The enormous profits made will continue to be an incentive and the small surcharge imposed will in no way interfere with Tea industry.

Tobacco.

It has been often suggested that one of the commodities that can be taxed is tobacco, as Madras Presidency is one of the important tobacco-growing tracts in India. We have carefully considered whether it should be Excise duty or Export duty. In view of the fact that it is very difficult to find out exactly the area under cultivation and form a correct estimate of the outturn, we prefer the imposition of Export duty to the Excise duty. It is easy to assess and also to collect through the customs offices. In 1922-23, 41,434,517 lb. of tobacco worth Rs. 19.76 lakhs was exported from this Presidency. Comparison with figures for previous years, shows that there has been steady and sometimes sudden increase of exports. It is feared that this duty will affect the quantity exported and also reduce the area under tobacco cultivation. We do not think in view of the large profits in the tobacco industry this will be the effect. In any case tobacco is a luxury and must, therefore, be taxed.

Ground-nuts.

Those interested in the agricultural industry, have often urged the need to develop the oil industry in this country so that the oil-cake produced may be retained in the country for purposes of manure. This view has also been voiced by the official agricultural experts. At present ground-nuts and oil-cake are freely exported, depriving the country of rich nitrogenous fertilisers. Control of export of oil-seeds and oil-cake can be done by imposing very high export duties, which will not only bring considerable revenue but also cause the retention of the cake for the use of the ryot. From a perusal of the trade figures it will be seen that France, Germany, Italy, Netherlands and Belgium are the great importing countries. During the year 1922-23, 224,629 tons of ground-nut worth Rs. 635.67 lakhs were exported from the Madras Presidency. Also a duty on oil-cake exported should be imposed. In 1923 as much as 30,710 tons of oil-cake were exported from this Presidency.

Other Articles.

There are other articles besides those already mentioned, for example, raw cotton and hides and skins that may as well bear a small duty to be helpful in bringing some revenue to the Provincial exchequer. We would suggest they should also be dealt with in any general scheme of new taxation proposals.

The Council of the League has ventured to put forward these taxation proposals in the hope that the Government will immediately formulate a scheme of reform aimed at reaching the goal of prohibition at an early date. They also believe these taxes are not likely to fall on the poor, who are already overburdened and cannot bear the strain of any taxation. The imposition of the taxes suggested will also tend to bring about a state of things in which each person is taxed according to his capacity to pay. But the Council of the League feels that retrenchment in the ever-increasing expenditure on public services is one of the means by which considerable savings can be effected. Indianization of services will also save the Government much expense. Moreover, when every one feels that

most parts of the increased revenue of the province are being spent on administration, it is well to take note of this fact and see how far expenditure can be reduced consistent with efficiency of administration before fresh taxation proposals can be made acceptable to the public.

Mr. Gopala Menon gave oral evidence as follows:—

The President. Q.—You are Secretary to the South Indian Chamber of Commerce, but you are giving evidence in your individual capacity?

A.—Yes.

Q.—You are a member of the Madras Legislative Council?

A.—Yes.

Q.—You are also Vice-President of the Madras Temperance League, in which connection you have given us a copy of the memorandum submitted by the League relating to taxation to make up loss in the excise revenue?

A.—Yes; I have enclosed a copy of what we submitted to Government.

Q.—Are you representing the League?

A.—No, I am not representing the League.

Dr. Hyder. Q.—I do not quite understand why the estimate of area sown is defective. Will you please explain that?

A.—It is seen from the Government of India resolution that the area sown is unsatisfactory and also from other records.

Q.—I should like you to explain where the defect lies in this estimate of the area sown. The matter is in the hands of the village *karnam* and he makes a report to the Tahsildar and the Collector. Why can't he know how much area has been sown?

A.—No special survey was conducted except in certain parts of India.

Q.—In your Presidency, the village *karnam* must know the total area on the registers. He knows how much has been sown and how much has been left out.

A.—He gives a rough estimate.

Q.—Why should it be rough? There cannot be any inaccuracy about the area sown.

A.—That is your contention, but even from official records . . . .

Q.—Will you read something to us from the official records?

A.—Mr. Datta pointed out that the acreage under cultivation is more or less defective.

Q.—Does this statement of Mr. Datta apply to your Presidency?

A.—Yes, to one-third of the Presidency.

Q.—You say that to judge the estimate of outturn by the areas sown instead of the actual outturn is particularly a hardship, when in all the parts of the Presidency there are not sufficient irrigation facilities. What is the exact point you have in your mind? You have in certain portions of the Presidency areas under cultivation and you estimate the normal outturn; and with reference to the actual conditions in any particular year, you can know by how much the actual crop falls below the normal outturn. The point you have in mind with regard to the defect of the whole estimate of outturn is that there are not sufficient irrigation facilities in all parts of the Presidency?

A.—The area is fixed at the time of settlement, more or less; but the assessment of land revenue is not made according to the outturn. My point is that it is on the actual outturn that assessments should be made and not on the area sown.

Dr. Paranjpye. Q.—Is it changing from year to year?

A.—It is supposed to be revised from year to year, particularly in the case of the second crop. I would like that this should be revised from time to time, if possible, not only at the time of resettlement.

Dr. Hyder. Q.—In regard to the estimate of normal crop, you say that what are called normal conditions do not exist at all, at all times and in all places. I would like you to explain this with reference to a quotation from a book published in 1917 by Mr. Ramanujachariar. He says: "When

the survey was introduced about the middle of the last century, the normal yield of fields was first ascertained and then a deduction of 20 or 25 per cent was made in consideration of the vicissitudes of the season." Mr. Ramanujachariar, when he published this pamphlet, was a retired official.

A.—What I mean by 'normal conditions' is normal qualities of soil, normal rainfall and normal knowledge of agricultural methods.

Q.—When an officer settles a district, these are precisely the factors on which he concentrates his attention.

A.—Yes; the general complaint is that what are called normal conditions do not exist at all times and in all places. A particular plot may have first-class soil at one time, but at all times you may not find the normal conditions existing there.

Q.—May I draw your attention to the latter part of your reply to Q. 3? You say that in order to remedy the defects of the present system of obtaining agricultural statistics, the work should be taken out of the hands of the subordinate revenue officials, who are more often overworked and underpaid, and the work should be entrusted to a Department of Statistics in all Provincial Governments, with a specially trained itinerant staff, who possess the required qualifications for collecting such information. Have you any idea of the number of qualified people that will be required for this kind of work? How many districts have you in Madras?

A.—There are 26.

Q.—There must then be 26 gazetted officers for the work.

A.—The Department of Statistics will be a new innovation. There are officers attached for agriculture and so on, who furnish the required particulars at present. My idea is to have a separate agency, called the Statistical Department.

Q.—Therefore, you will have to double your agency.

A.—The experienced village officials can be brought under this department.

Q.—But you condemn those officials.

A.—I do not condemn the officials, but only the system; they can be made to work under a systematic method.

Q.—Then there would be no separate agency. The Department of Statistics would initiate the *karnam* into this method of preparing accurate statistics?

A.—Yes, but we will require better class Indian officials.

Q.—What do you mean by better class Indian officials? Is it your idea that your Tahsildar, in addition to being a good executive officer, should also be versed in statistical work?

A.—When we organize the department, we shall have to decide whether the Tahsildar will be able to devote his attention to this. The Department of Statistics will be a separate department altogether.

Q.—Would your Presidency bear the cost of these officers?

A.—I do not deny that separate officers would mean additional cost.

Q.—You are a member of Council. Would you vote for the grants?

A.—I am only giving you my ideas; the ways and means will have to be found out later on.

Q.—In reply to Q. 13, you say that no element of tax appears in the case of (a), i.e., bare return on the capital invested, but it does in the case of (b) and (c).

A.—I think there is a little bit of profit included in the commercial return.

Q.—So that the profit which commercial undertakings get will be in the nature of taxation. Would you say that the profit earned by Government railways, which is surely a commercial return, becomes a tax?

A.—There is an element of tax there particularly in monopolies of necessities.

Q.—In reply to Q. 18, you say that the dues levied for the safety of shipping at a port are indirect taxes levied on the general tax-payer. How do these dues become taxes?

A.—As far as goods are concerned, there is no dispute, because all these charges incurred at the port are included in the cost of the goods.

Q.—You consume rice here, and when there is a scarcity of the rice crop, you have to import rice from Burma.

A.—Yes.

Q.—You have to pay freight to the shipping companies for bringing the rice; would that be a tax?

A.—In taking the price of the rice into account, the freight will be included in the cost of the goods.

Q.—Then everything in your view is a tax?

A.—It will be an indirect tax.

Q.—There is a service rendered, and that portion of the price which is included in the cost of rice on account of labour is not in the nature of a tax. Do you agree to that?

A.—The cost of labour is not an indirect tax.

Q.—The freight that you have to pay to the British India Steam Navigation Company is the payment of a price and not a tax.

A.—We are on the point whether these indirect taxes will be collected from the consumer.

Q.—The whole point is whether these dues are taxes or not. You admitted to me that the cost of production of rice in Burma is not in the nature of a tax.

A.—We included the cost of labour in the price of the rice.

Q.—Suppose there were no harbour in Madras and your ships were held up at a distance of about six miles from Madras. To bring the rice, have it unloaded and make it available in the Madras markets, you would have to pay something to the boatmen. The existence of the harbour enables the rice to be brought right up to Madras; therefore, the harbour renders the same service as the boatman did to bring the rice from a distance of six miles; how does this become a tax?

A.—The point is whether these charges form an indirect tax on the general tax-payer. As long as these charges are included in the cost of the goods, the merchant in the bazar shifts them on to the general consumer of rice, and therefore it becomes an indirect tax.

Q.—How does it become an indirect tax?

A.—Your contention is that they are all for services rendered. No doubt, they are for services rendered as long as the goods are put out on the land and brought into the godown, but when these charges are taken into the cost of the article, the question is whether that will be shifted on to the consumer.

Q.—I invite your attention to the answer to Q. 24, in which you do not oppose an entertainments tax. Would it be a tax on all entertainments, or a tax on entertainments on one class of people?

A.—My idea is a tax on theatres and things of that sort.

Q.—Wouldn't that be taxing one class of people and letting off other classes? Will you touch also theatres held in villages, open air performances and singing parties?

A.—Entertainments include all classes of entertainments. I do not mean entertainments at a festival in temples.

Q.—Why should an entertainment in a temple be excluded from taxation?

A.—It is more or less done on religious occasions.

Sir Percy Thompson. Q.—Would not your test be whether any charge is made for admittance to the entertainment?

A.—In some places they are taking out licenses for processions, etc., even now.

Q.—That is, you would have a tax on entertainments where there is no charge for admission?

A.—Yes.

Dr. Paranjpye. Q.—With reference to your answer to Q. 23, I would like to know what difference you make between tobacco and intoxicating liquors.

A.—Intoxicating liquors impose an economic burden on the poor families. The expenditure incurred on tobacco is not so much. Money is spent rather lavishly on intoxicating liquors.

Q.—What amount people spend does not make any difference in the nature of taxation?

A.—Tobacco has become second nature, but intoxicating liquors impose an economic burden on the family.

Q.—The economic burden in the one case is smaller than in the other. Is that what you mean?

A.—In the case of tobacco it is infinitesimally small.

Q.—I cannot understand your statement, except that intoxicating liquors are more harmful than tobacco.

A.—They are certainly more harmful and the economic burden on the family is so great.

Q.—Incidence on the poorest classes and poll tax. This is a very important subject. Your view is that there should be no taxation without the classes being represented in your Legislative Council?

A.—Yes.

Q.—You say that capacity to pay taxes alone should not be taken as the basis for franchise. What other basis would you advocate?

A.—Universal adult suffrage.

Q.—What is the total population of your Presidency?

A.—About 41 millions.

Q.—Is the Presidency a rich Presidency, and is the economic condition of the people good, bad or indifferent?

A.—The Presidency is not so rich as other Presidencies in India.

Q.—You say that the bulk of the people are poor?

A.—Yes, comparatively.

Q.—The total provincial revenue raised in Madras comes to about 16½ crores of rupees. About 5 crores are contributed by people who do not vote for your Legislative Council?

A.—Yes.

Q.—There are classes of people who pay indirect taxes and also perhaps direct taxes, but they have no place in the legislative body of your Presidency. Does that appeal to your sense of justice?

A.—At present they have no direct representation, but their representatives are nominated.

Q.—Only one or two members represent them. The people who pay indirect taxes have no voice whatever in the determination of the economic welfare of the people. Does that appeal to your sense of justice?

A.—I agree that they must be given representation.

The President. Q.—May I refer you to your answer to Qs. 29 and 30? In answer to Q. 29, you say that the tax imposed should be direct: then in answer to Q. 30, you object to a direct tax, because you say it is objectionable, being a compulsory tax. What is a tax if not compulsory?

A.—In answer to Q. 30, I am speaking of poll tax. I say that poll tax is objectionable, because it violates the test of ability to pay.

Q.—But in answer to Q. 29, you say you would only have a direct tax.

A.—If taxation is going to be a proper accompaniment of representation, I say that the tax imposed should be direct.

Q.—Of what nature should that direct tax be?

A.—Say, a house tax.

Q.—You would have a sort of house duty on all houses in the Presidency?

A.—Most of the houses pay.

Q.—They pay to the municipality for services rendered. Do you mean that you would have something like the chowkidari tax in Bengal?

A.—Any form of direct tax would do.

Q.—How would your house tax differ from poll tax? Poll tax is so much per head, and house tax would be so much per family.

A.—In a house the man earns something and has ability to pay, but poll tax is mostly a compulsory tax without reference to taxable capacity.

Q.—If you are going to tax the poorest man, would it make any difference whether it is a house tax or a poll tax?

A.—He has to live in a house, and as a citizen he has to pay something for it. It is not so in the case of the poll tax.

Sir Percy Thompson. Q.—We have not received your statement giving the rate of increase for different grades of income.

A.—I have not made up one, as I could not come to a scientific figure.

Q.—Do you propose to increase or decrease it for different ranges of income?

A.—I would increase the rate after Rs. 30,000. Rs. 50,000 is the limit for super-tax.

Q.—Isn't super-tax a mere continuation of the graduation which is already provided by the income-tax?

A.—Here I refer to super-tax imposed as an emergency measure. Owing to its operation there have been a number of cases of undivided families being split up into single families.

Q.—Let us suppose that the country is populated by individuals. Do you make any distinction between super-tax and income-tax?

A.—Super-tax on the first Rs. 50,000 is 1 anna; on the second Rs. 50,000, it is 1 anna 6 pies and on the next Rs. 50,000, it is 2 annas.

Q.—Is not the result of that a graduation continuing the graduation which is already effected by the income-tax?

A.—I think it will be better if the two are combined and a rate is given according to the old system.

Q.—If you did that, you would have to abandon collecting income-tax at the source, which is the great safeguard for the revenue.

A.—You can keep up to your level, whichever level it is.

Q.—Supposing you have your income-tax ranging from 3 pies in the rupee up to, say, 5 annas, at what rate are you going to deduct for income-tax from interest on Government loans?

A.—Whatever the rate applicable to the party concerned.

Q.—It is impossible to deduct at a different rate from everybody. At what rate would you deduct from Government securities bearing interest?

A.—Whatever dividend is received from the Government securities will be added on to the income-tax.

Q.—At the present moment you deduct income-tax at 1 anna 6 pies because that is the maximum rate of income-tax for everybody. But if you cease to have a standard maximum rate for income-tax and have it running from 3 pies to 5 annas in the rupee, how are you going to deduct?

A.—That is one of the points; there would no doubt be several refund applications.

Q.—Is not that a fundamental objection?

A.—Yes, as far as income-tax officers are concerned.

Q.—It is a fundamental objection from the administrative point of view. Have you any advantage to set against it from the point of view of principle? You would get exactly the same result if you have your maximum income-tax 1 anna 6 pies and then carry it on to 5 annas by means of a super-tax.

A.—You have to collect twice, once the regular income-tax and then super-tax. Instead of that, I would suggest amalgamating the two and having a uniform rate.

Q.—But the question is whether it is administratively better to have claims for refunds from ninety-nine out of a hundred people, or whether

it is better to reduce those claims and have a machinery for collecting super-tax from a comparatively few people. You get precisely the same graduation by the two methods.

A.—I have no objection in going back to the old method: keep up the same income and arrive at a figure which will give the same total yield. The super-tax was only an emergency measure.

Q.—If you go and make your rates of income-tax range up to 5 annas in the rupee, you would not really be abolishing super-tax.

A.—The whole question hinges on the taxable capacity of the people. Those who made more money from trade and other sources were made liable to the super-tax.

Sir Percy Thompson. Q.—But your income-tax gets exactly the same people as super-tax?

A.—Yes, on higher income. There is another thing also in regard to the private companies. According to the old rate they were only paying a certain rate. Now they can avoid the super-tax by taking in more partners.

Q.—That means they reduce their income. They won't do that.

A.—In some families, on account of this there were divisions. My point is that this was an emergency measure and is bound to come down. It could not last long.

Q.—We must leave it at that. You are not abolishing the super-tax. All you are doing is adding chaos to the administration, without gaining any corresponding advantages.

A.—A flat rate in the case of the registered companies is better for administrative purposes and you can find out a uniform method.

Q.—If you leave out super-tax on companies; income-tax and super-tax are not taxes on companies at all, but on individual shareholders. As it is paid from the dividends, it is passed on to the shareholders.

A.—Suppose you collect 1 anna he gets a refund of 6 pies.

Q.—As it is passed on to the shareholder, it is the individual shareholder and not the company who pays. What you are really taxing therefore, is a series of individuals.

A.—My point is that if you are giving refund in such cases, you can have an amalgamated tax and bring it to a uniform rate.

Q.—Supposing you have a graduated rate of income-tax from 5 pies to 6 annas, at what rate are you going to charge the companies?

A.—Just as the private individuals who have paid the income-tax.

Q.—At what rate would you charge them?

A.—Keep it at Re. 0-2-6 and give a refund to the individual shareholders.

Q.—What about those whose incomes are chargeable at the rate of 6 annas?

A.—It is for that I said a little while ago that we shall have a uniform rate.

Q.—I am a millionaire liable to be taxed at 6 annas in the rupee. Are you going to make an additional charge?

A.—If you are a millionaire you can afford to pay.

Q.—What is that but a super-tax?

A.—Are not these people paying higher duties than companies?

Q.—From my income the company will deduct Re. 0-2-6. How are you going to get the other Re. 0-3-6?

A.—The whole thing will have to be revised in a systematic manner.

Q.—The only thing you can do is to make a separate assessment on me at Re. 0-3-6. How is that different from super-tax? I could understand you saying 6 annas and letting people claim refunds.

Q. 38.—You are not in favour of the removal of the exemption for agricultural incomes?

A.—No.

Q.—What deduction you would draw from your table?

A.—I wish to draw a distinction of farmers and absentee owners.

Q.—What deduction do you want to draw from your table?

A.—I wish to show that the absentee landlords are increasing in number.

Q.—If you make an addition you will find that in 1911 there were 633 cultivators and now there are 606. That is to say, the number of cultivators has been reduced. Is the extent of land cultivated also reduced? Or does it mean that people are cultivating larger holdings?

A.—I do not think that the extent has been reduced.

Q.—No lands have gone out of cultivation. Then you call attention merely to the fact that the absentee landlords have increased. What deduction do you draw from it?

A.—I merely wished to draw attention to the increase in the number of the absentee landlords.

The President. Q.—May I refer you to your memorandum wherein you say that the Council of the League has ventured to put forward taxation proposals in the hope that the Government will immediately formulate a scheme of reform aimed at reaching the goal of prohibition at an early date. You recommend income-tax on the income of permanently-settled landlords?

A.—Yes, if money is needed.

Dr. Hyder. Q.—With regard to the non-cultivating landowners the percentage is 49 and it was 23 in 1911. Does it not mean this, that land has been partitioned out?

Sir Percy Thompson. A.—I do not think so, because the number of landholders has been reduced. It merely means that some landlords have ceased to cultivate and become rent receivers.

Q.—You took these figures from the census?

A.—Yes.

Q.—Why do you say you prefer the three years' average?

A.—Suppose in the case of a merchant he has omitted to include a loss which he subsequently finds out in the second year's accounts, the average would help him. But under the present circumstances it will not be allowed.

Q.—I do not follow that.

A.—I submit my statement in April. I am assessed in May. I may be getting my returns from foreign countries and find that I have sustained a loss in the previous year. Sometimes those amounts are not allowed.

Q.—The three years' average will be for the three years before the year for which you pay.

A.—I thought there will be more equitable payment if three years' average is taken. Also the tax will not be too high or too low.

Q.—You say there will be little variation?

A.—Yes, I think so.

Dr. Paranjpye. Q.—Supposing in the first year you make a profit of 1 lakh. In the second year, it is Rs. 50,000, and in the third year there is nothing. In the fourth year there is a loss of Rs. 10,000. So in the fourth year over and above incurring a loss of Rs. 10,000 you have to pay income-tax on Rs. 50,000. In this case, if you are incurring losses after years of profit, you have not only to suffer the loss, but also to pay income-tax which will be a burden. You will have to pay the tax just when you cannot afford it. If, on the other hand, you are paying a year after you are making a profit, what you will probably do if you are a prudent man is to set aside for next year for the income-tax. But in this case you have to pay for a profit made three years ago and you will be in a bad position to pay.

A.—As far as you are concerned, don't you think that a tax on three years' average is better?

Q.—In the long run, the tax you pay will be exactly the same.

A.—What I thought by the three years' average was to give an opportunity to include certain losses which could not be brought into the account and also there will be more equitable payment. I thought the tax that we may have to pay will not be too high or too low.

Q.—What you really want is to be able to carry over losses, not to ask for the three years' average system?

The Maharajadhiraja Bahadur of Burdwan. Q.—Have you in mind any substitute for the present land revenue?

A.—If we are going to remove the system.

Q.—That is exactly what we want to know. Have you got any other system in mind?

A.—I have no alternative land revenue system. I mean the income-tax on the yield from land.

Q.—Therefore, I understand you are in favour of continuing the exemption of income from agriculture as given in the Act, as long as the present land revenue system lasts?

A.—Yes.

The President. Q.—I agree with you in respect of the patent medicines. But as regards playing cards, is there any local manufacture?

A.—There is no local manufacture. Practically nil I should say. As it is a luxury, I thought excise duty may be imposed.

Dr. Hyder. Q.—Are there any cigarette factories in the Presidency?

A.—Only two.

Q.—Do they import cigarette paper from abroad?

A.—They tried to manufacture it to some extent.

Q.—Are the Imperial Tobacco Company people importing from abroad?

A.—They get their supply from Home. One man had a factory at Triplicane. In the old days they used to import cigarette paper.

The President. Q.—In respect of coffee and sugar how can they collect excise?

A.—That will have to be done at the factory.

Dr. Paranjpye. Q.—How are you going to have an excise officer at each field where they boil sugar?

A.—I was really thinking of export duties.

The President. Q.—What is the quantity of salt that medical opinion considers as essential for subsistence?

A.—16 lb.

Q.—Is not the consumption of the Presidency more than that for the last few years?

A.—Yes.

Q.—You would like Government manufacture of salt?

A.—Yes.

Q.—You think Government can do it more cheaply?

A.—It is done under Government supervision now: if so, they can also manufacture salt.

Q.—Is it fair that the Bengal consumer should pay more for the benefit of the Madras producer?

A.—If Government manufactures salt, Government won't take so much profit, and the cost of production will be cheap. If you want to improve the industry, you should manufacture salt in this country.

Q.—Then would a protective duty be necessary?

A.—Yes, to keep out foreign salt.

Q.—If they are made to sell it by weight, will it be an interference with the traders?

A.—Care should be taken against adulteration.

Q.—Would there not be petty interference by Government officials?

A.—When supervised by Government it will not be so bad.

Dr. Hyder. Q.—With what material do they adulterate salt?

A.—Something like sand or mud; in order to deprive the purchaser of a certain portion.

Q.—The colour of salt is white.

A.—It might be something like that. Sometimes we find mud in it.

Q.—Have you any experience of the practice of sifting?

A.—No.

Q.—You hope to succeed in introducing the policy of prohibition?

A.—It is a pious hope. There is a good deal of public opinion behind it.

Q.—Have you calculated the cost?

A.—It will have to be done gradually in order to shift the burden on to other things.

The President. Q.—I have an estimate of the cost in America which amounts to Rs. 76 crores and they could not have faced this even in America except for their post-war prosperity. The total period of imprisonment awarded in one year, that is, in 1923, was 2,781 years. The illicit liquor seized was about 345 crores of rupees worth. Are you prepared to face a campaign that would result in expenditure on such a gigantic scale?

A.—They are still keeping on the prohibition principle with the idea that there will be much more sober men in the country.

Sir Percy Thompson. Q.—Do you know that in America the people who traffic in illicit liquor are the most ardent prohibitionists?

A.—I don't know that. But this is what Mr. W. T. Layton says: "I venture to suggest that the influence of temperance propaganda, the increase of other forms of amusements more than that of lounging in a public house or tippling in a club, the growing disapproval of public opinion towards drunkenness and the recognition of improved health and efficiency that results from sobriety will combine to reduce the consumption per head of alcohol in Great Britain, even if these influences do not lead us to prohibition. I think, therefore, that in any case we should be wise to anticipate a reduced yield from the alcohol duties." Then he says: "If a wave of temperance is spread over the country, the exchequer would be seriously depleted and would need to improvise quickly some new sources of revenue". In the end, he says: "It is right that the incidence of indirect taxes should be as wide as possible. I suggest therefore that on all grounds it is appropriate to budget for a reduced and not for an increased yield from the alcohol and tobacco duties. If the reduction comes of itself, it will be a welcome sign of sobriety; if not, we must make a beginning to broaden the basis of taxation, but not by cheapening alcohol so much as to encourage a largely increased consumption".

Q.—Is he not proposing a steady increase of control instead of sudden total prohibition?

A.—Certainly I do not want any sudden enactment, but by a steady process of reduction and control.

Dr. Hyder. Q.—Is there not difference in the conditions prevailing in the Madras Presidency, and say, America and England? I mean to say people here are more law abiding, and if we impose such a measure as in America, there will not be such crimes and such illicit distillation as in America or England.

A.—Certainly. Any bureaucratic or popular measure would have to be brought in by the administrative machinery.

Q.—I mean to say that our people can stand an amount of government which other nations cannot stand.

A.—Certainly.

Q.—I was going to ask you this question, whether the people in the Madras Presidency will have recourse to illicit distillation to a very great extent if there was total prohibition, and thus, you would have to increase your charges on jails and such other things.

A.—Not very much.

Q.—Would they go in for illicit distillation as in Western countries?

A.—Not so much.

The President. Q.—Can you tell me what was the total number of prosecutions for illicit distillation, last year?

A.—Of course, it has been going on. But if in a Western country they can bring about prohibition in eight years' time, and when they think that there will be a decrease in the yield of tobacco and alcohol and so on, I suppose it is much easier here in India.

Q.—In England you had the Board of Control between 1915 to 1921 which did more to reduce drunkenness than anybody else. Can't you learn the lesson from the history of England? There is the control system. That is why I draw a distinction between the steady control and violent introduction of prohibition measures.

A.—Yes, in England there are more private agencies working in the cause of temperance. As far as I know, there are 16,000 men and women working at it.

Q.—How many of them are active propagandists?

A.—I don't know that.

Dr. Hyder. Q.—Do you think there is the same amount of craving for drink in a hot country like Madras as there is in England?

A.—No, it is the facility for drinking makes a man drink. There is not so much craving here as in the Western countries.

Q.—You think the cultivators in this Presidency would like to go without *tari*?

A.—Certainly they will go without it.

Q.—I see that you advocate that additional sources of taxation should be tapped, and perhaps you have a surcharge on income-tax in mind?

A.—The question is to make up the deficiency, and we are prepared to bear all the taxes if to-day we can find no drink in this country.

Q.—Your proposal for a surcharge on income-tax: would the South Indian Chamber of Commerce agree to that proposal?

A.—I have not taken their opinion on this matter, and so I cannot give you an assurance on their behalf.

Q.—You agree to the conclusions arrived at by the Excise Committee recently appointed here?

A.—Yes, I agree.

Q.—I ask you whether this suggestion is of any value. If you adopt the policy of gradual progress towards the ultimate goal of total prohibition, could you not tax cocoanuts and realize some amount of revenue? Further, the toddy tree yields only for six months, and the same tree if it is subjected to only the cocoanut use, goes on to give you an increased yield and thus there may not be any loss of revenue by taxing the cocoanuts and their by-products. Do you think this suggestion is of any value?

A.—Of course, in order to make up the loss of revenue it is quite possible.

Dr. Paranjpye. Q.—Do you think the palmyra trees and date palms yield cocoanuts as Dr. Hyder seems to think?

A.—No. The question was put in the case of cocoanuts; I think a certain amount of revenue can be got from cocoanuts.

Q.—Do you think that copra would bear a large export duty?

A.—Of course, it may be.

The President. Q.—As a member of the South Indian Chamber of Commerce, would you advocate it?

A.—My individual opinion is that I am prepared to meet taxation for certain things in order to bring about prohibition.

Q.—Would it be worth while taxing cocoanuts?

A.—I think it would be worth while. Perhaps, your idea is that copra which is now exported would be stopped. I do not think so.

Dr. Paranjpye. Q.—Have you got any experience of cocoanut gardens? Then what do you think of the annual yield of a cocoanut tree?

A.—I come from Malabar and therefore I know something of it. I think the yield of a cocoanut tree ranges between 50 and 100, but it depends upon the cocoanut tree.

Q.—Then take 100 which is a very liberal estimate. In Malabar where you come from, what does a cocoanut cost?

A.—I think the average price is 1 anna.

Q.—That would mean Rs. 6 for cocoanuts and about Re. 1 for the by-products, say Rs. 7 altogether. Further, the garden land is charged at a higher rate of land revenue.

The President (interrupting). Here the garden lands are not charged at a higher rate of land revenue.

Dr. Paranjpye (continuing). Q.—At any rate in Bombay there is the *bagayat* rate; do you think this proposal of charging a rate on the cocoanut bearing trees is a feasible proposal?

A.—If there is going to be prohibition, and in order to bring about prohibition, just like in other things if we can get a small income from cocoanuts, I will welcome it.

Q.—My own impression is that among respectable people it is almost considered irreligious to allow a cocoanut tree to be tapped for toddy.

A.—I think here everybody is giving his trees.

Q.—Even among higher classes?

A.—I do not know that. I know these trees are given out on lease. The landlords here are not supervising these trees, so they don't mind giving them out for tapping. At least, the majority of the trees are tapped here.

Dr. Hyder. Q.—I see Dr. Paranjpye has just now made a calculation. I take a particular tree that would yield Rs. 7 worth of cocoanuts, and if this particular tree were subjected to *tari* tapping, you would get *tari* from it only for six months?

A.—Yes.

Q.—Have you any idea how much *tari* it will bring in, in order to compare the difference. The same tree subjected to cocoanut use gives you Rs. 7, and that very tree if subjected to *tari* use, how much worth of *tari* it will produce?

A.—I think it will produce Rs. 10 worth of *tari*.

Q.—It will yield, you say, 10 rupees worth in six months?

A.—That is what I think.

Q.—If it were subjected to the first use it will yield Rs. 7 worth of cocoanuts. If it became a proposition within the realm of practical politics, you could subject the cocoanuts to taxation?

A.—Yes, for the sake of prohibition.

Sir Percy Thompson. Q.—Then they would cut down all the cocoanut trees. What is the present rate of taxation for tapping a *tari* tree?

A.—Rupees 7-8-0 is the rate, I think. My recollection is it is something between Rs. 7 and Rs. 10.

Dr. Hyder. Q.—I should like to know whether there is anything in the suggestion where a tree has been tapped, it can yield no more of cocoanuts. If you embark on the policy of total prohibition, you can know at once whether a tree has been tapped or not.

A.—Yes. If there is no tapping then cocoanut tree will give a better yield and the price of the cocoanuts will go up.

Dr. Paranjpye. Q.—Where the cocoanut trees are not tapped and allowed to yield cocoanuts, it is in that case that the maximum is Rs. 7?

A.—When the *tari* is not drawn, cocoanuts are sure to produce better price.

Dr. Hyder. Q.—What I say is that a tree can bear either *tari* or cocoanuts, and not both.

A.—Yes.

Q.—I ask you if there is any value in this suggestion. If the cultivators were to cut down all the trees, and if the people of India did require cocoanuts, and then there will be a demand for cocoanuts, and that demand will have to be satisfied through the importation of cocoanuts from abroad, like other tropical countries, and if you impose an import duty of, say Rs. 7-8-0 on the import of cocoanuts, the consumers would have to pay that duty. Then it would become a necessity for the cultivator not to cut down the trees and thus you would be able to get over the difficulty.

Sir Percy Thompson. Q.—This assumes that demand for cocoanuts is not very elastic.

Dr. Paranjpye. A.—No. It is extremely elastic.

Dr. Hyder. Q.—If the people of India or cultivators who are owners of the trees cut down the trees and then the demand for cocoanuts increases, there will be nothing to satisfy this demand. If Government imposes a duty of Rs. 7-8-0, that will have to be paid by the consumer.

A.—Yes.

The President. Q.—Are you aware of the millions of palmyra trees which produce *tari* and the sugar that is made out of it? It is a very big business. If you stop the palmyra *tari* you will be killing the sugar enterprise. How can you prohibit tapping?

Q.—Is there any way you can suggest an alternative tax for the duty you would lose in respect of the tree-tax? If you lose on the tree-tax, could you get a tax on the palmyra fruit?

A.—I think you can make up something by selling all the leaves, etc. But some sacrifice will have to be made.

Sir Percy Thompson. Q.—You make whisky from malt, and impose a duty of 50 shillings a gallon. Could you abolish the 50 shillings duty and put an equivalent duty on husks which go to feed cattle?

A.—I think it is only a minor item.

Dr. Hyder. Q.—Cocoanuts are consumed in this country and a portion is exported abroad. I suppose you are aware that cocoanuts are used for the manufacture of many other articles in other countries, particularly in France. If you adopt the system of manufacturing these articles in your own country, surely it would give you more money; is it not?

A.—Yes.

Dr. Paranjpye. Q.—You know the history of the Tata Industrial concern with regard to cocoanut oil, etc.?

A.—Yes. But do you mean to say that no other factory would come into existence in this country, because one factory failed?

The President. Q.—We now come to the super-tax on land revenue, and you favour super-tax on land revenue as a source of additional revenue. I gather from your remarks, that the legitimate thing would be to make the permanently-settled landholders pay to make the poorer classes temperate. Is that quite a logical position?

A.—In order to relieve the burden on the poorer classes of people, the higher classes have to bear a certain amount of burden. In order to bring about more sobriety amongst the masses of the country, it is only reasonable.

Q.—Do you accept the theory that people who enforce temperance ought to pay for the loss of revenue?

A.—I mean the people as a whole.

Q.—Do you consider the enhancement of salt duty is the possible alternative?

A.—No. I have said salt duty should entirely go.

Q.—You say: "This is a feasible method of taxation by which both agricultural and non-agricultural incomes are treated in the same way in regard to taxation. In fasli 1330 (1920-1921), there were 782 single *pattadars* and 2,591 joint *pattadars* paying over Rs. 1,000 land revenue assessment." Can you tell us where you got this figure from?

A.—I can't tell all at once.

Dr. Paranjpye. Q.—You consider that death duties will be a reasonable tax if prohibition were introduced?

A.—Yes, in order to find an alternative tax.

Q.—You agree generally with the policy of Professor Rignano, viz., that practically the whole estate should be taken by the State in the course of three generations?

A.—I am not going to commit myself to that.

The President. Q.—Professor Rignano says that a tax on inheritance should be progressive in time. His principle generally is that after three generations the whole estate should be taken by the State.

A.—Yes.

Q.—Supposing a man dies leaving 10 lakhs of rupees, the State will take 5 lakhs and the other 5 lakhs would go to his son. On the son's death, 2½ lakhs will be taken by the State and the remaining 2½ lakhs

would go to the grandson. On his death again, the whole of the remainder will be taken by the State. That is Professor Rignano's scheme: do you agree with that?

A.—I agree that death duties should be imposed.

Dr. Paranjpye. Q.—Do you agree with Professor Rignano's statement that a tax on inheritance should be progressive in time?

A.—The word 'progressive' means that the duty imposed on the estate should be progressive.

Q.—Then you have not understood Professor Rignano's theory. At any rate, you consider that the duty should be charged on the estate left by any particular individual and that the rate should be progressive, i.e., for a larger estate the rate should be higher?

A.—Yes.

Q.—In England, death duties are of two kinds. One is what is called the estate duty to be determined by the value of the whole estate left; the other is what is called a legacy duty or a succession duty paid by the successors or the legatee and on the amount that is received by him. The latter duty varies with the degree of relationship of the legatee to the testator.

A.—I agree that an immediate relation should pay a smaller duty than a distant relation.

Q.—So that, the death duty should be of two kinds, one an estate duty, and the other a legacy duty?

A.—I agree with that theory.

Q.—How are you going to treat joint Hindu families? When a member of a joint Hindu family dies, you in Madras, as we in Bombay, are governed by the Mitakshara Law and every man has a definite share in the joint family. How is the duty to be levied? Is it to be levied on the amount of the estate, which is supposed to be his portion if he had claimed partition at the time of death, or on the whole estate of the joint family? Suppose a father has three sons; according to our law, any of those sons can claim partition and get one-fourth of the whole estate whenever he claims partition. But suppose they are a joint family, how are you going to charge the duty when the father dies?

A.—I can only answer that question as a layman; lawyers would be able to enlighten you on this question.

Q.—I am not a lawyer myself. In a joint family consisting of a father and three sons, if the father dies, how will you charge a death duty?

A.—On the estate as a whole.

Q.—But if the father is living and one of the sons dies, how will you charge?

A.—That is a legal point. I am only on general principles. I do not want to answer the question as a layman and commit myself to anything.

The President. Q.—You have not thought of this question.

A.—No.

Q.—You would make it compulsory to register all partitions and levy a duty on registration?

A.—Yes.

Dr. Paranjpye. Q.—On what basis have you fixed Rs. 3,000 as the limit for an individual and Rs. 5,000 for a joint family? Do you consider that these limits would be suitable limits of exemption?

A.—Yes.

Sir Percy Thompson. Q.—A tax is imposed on the export of jute. Now India is the only country which exports jute. If you impose an export duty, the duty falls on the foreign country and the foreign consumer has to pay the duty. If you have no monopoly, the export duty has to be paid by the producer.

A.—That is so.

Q.—Do you accept the position that an export duty is only justified on an article which is in the nature of a monopoly of the country imposing the duty?

A.—Not only in the case of monopolies, but also in the case of other articles in which it has an important place in world production.

Q.—Tea is by no means a monopoly.

A.—No.

Q.—In India you cannot regulate the world price of tea like that of jute. The tendency will be for the export duty to fall on the producer of the tea.

A.—Yes. The export duty would only amount to a small percentage.

Q.—It may be that the tea industry has been in a very flourishing condition owing to war conditions. Is it in a flourishing condition at the present moment?

A.—It is.

Q.—It is fairly flourishing; it is not as flourishing as it was and the tendency for the tea industry will be to go back to normal profits. When it comes back to normal profits, do you suggest there would be a justification for putting an export duty on it?

A.—The producer includes the export duty in the price.

Q.—If it is governed by world prices he cannot put it on the consumer. He has to pay it himself. When the tea industry only makes a normal profit, is there any justification for singling out tea for an export duty?

A.—You are taking the ideal position.

Q.—This is one of the taxes you are going to impose in order to make up the loss of permanent revenue under excise.

A.—Then, the question to consider is whether the world production is enough to meet the world requirements.

Q.—I am not on that. You are putting a duty on tea to replace a permanent tax. If you agree that a duty on tea is only justified when the profits from the industry are abnormal, and if you assume that they cannot remain so for ever, how do you justify the duty?

A.—Our experience for the last 25 years has been that the industry is flourishing and can afford to pay the duty imposed on it.

Q.—If you could establish the fact that the tea industry is making an abnormal profit, I quite agree that it can bear a small export duty. But you cannot assume that the abnormal profits are going to continue indefinitely. No industry continues to give abnormal profits for ever. What you are trying to do is to find a permanent source of revenue to replace a permanent loss under excise.

A.—If the producers of the tea come down and make a complaint, we may be able to find something else to substitute for the duty on tea. At present it is giving a permanent tax.

Q.—Are the profits from tobacco abnormal? You certainly have no monopoly in tobacco, but you have a very small proportion of the world's production.

A.—We can utilize that tobacco in the country.

Q.—How is that relevant?

A.—I ask what would happen if exports were stopped on account of world competition.

Q.—Won't the effect of putting an export duty on an article be to raise its price?

A.—In England they are putting a very heavy duty on tobacco.

Q.—That is an import duty.

A.—Your point is that exports will be stopped to a country like England.

Q.—Exports will be stopped to every foreign country.

A.—Are the foreign countries going to be without our tobacco?

Q.—It is a mere flea-bite that India supplies.

A.—We can still find a world demand for it.

Q.—Suppose the world price of tobacco is Rs. 5 a pound, you put an export duty on it and make the cost to the exporter Rs. 6 a lb. How in the world is it going to compete against the tobacco which sells at Rs. 5 a lb. that come from the rest of the world?

A.—I mean that we can still levy an export duty and find a sale for it in some market, because we are exporting tobacco to different parts of the world.

Q.—But why should they buy your Rs. 6 tobacco when they can get the same quality at Rs. 5 elsewhere?

A.—In some parts of the world, e.g., Penang, Singapore and Malacca, there is a craving for Indian tobacco.

Q.—I am quite clear that the big markets of the world will not take your tobacco.

A.—I appreciate the point that the price charged would depend on the world price and may have to be reduced. The question is whether the world prices in some places cannot be brought down and whether those places will not buy our tobacco even if we have a small duty.

Q.—Are there other articles, on which we can levy an export duty?

A.—Yes, there was an export duty on rice some time ago.

Q.—I think the duty is still levied. Take the case of hides and skins; I imagine that the export duty in this case is levied for a different reason. You may have to foster the leather manufacturing industry, but in the case of tobacco I can see no such reason.

You suggest a duty on oil-seeds. I do not know whether from the fiscal point of view, it would be a good thing to levy it.

A.—Yes, we can keep the oil-seeds and the manure in the country for agricultural purposes.

Q.—You are doing it for reasons which are not connected with taxation, but for social reasons?

A.—My own view is that even if we levy an export duty, some parts of the world are sure to buy from us.

Q.—These duties are a very ticklish question. Take the cotton excise duty; the duty is only 3½ per cent, why is there an outcry against it?

A.—With regard to that, the competition to-day is mostly from Japan and not from any other place. Japan gets our cotton and sends its manufactured goods to this country.

Q.—The allegation—I do not know how far it is true—is that this 3½ per cent excise duty on cotton is enabling Japan to compete with the Indian mills.

A.—Japan's competition is not only to the extent of that difference in the cotton excise duty, but it is still more in certain classes of goods. Japan is successfully competing to-day, not only with the Indian mills, but also with Lancashire. They manufactured a stuff recently, for which Lancashire spinners are trying to find out a substitute. They have met and decided to manufacture a cloth to compete with the Japanese cloth.

Q.—I saw that in the papers and there has been a howl of indignation at it.

A.—I may tell you that to-day the importation of Lancashire grey goods has mainly gone down; that is due to competition from Japan.

Q.—It is due very largely to Japanese and Indian competition.

A.—To some extent Indian, but it is mostly Japanese. Japanese are selling more in this country.

Q.—I merely suggest that there is no use saying that the duty levied is small.

A.—It is a point to consider whether similar taxes are imposed on such industries in other countries.

Q.—I do not know whether there is an export duty on tobacco anywhere.

22nd April 1925.

MADRAS.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. T. V. SESHAGIRI AYYAR (Ex-Judge), Madras, was examined.

Written memorandum of Mr. Seshagiri Ayyar.

Q. 1.—The statistics available at present for the purpose of an estimation of the wealth of the country are neither adequate nor reliable. To arrive at a correct estimate of the yield of land, I find different methods have been employed in different provinces. There should be a uniform method. That alone would enable us to institute comparisons regarding the incidence of taxation. In my opinion, the crop-cutting experiment of Madras is less objectionable than the others. Previously, the revenue officers carried these experiments in each village during the time of crop inspection and checked the estimates given in the village accountant's records. Now, that has been abandoned. This practice ought to be resuscitated. Other provinces would find the system less liable to abuse. The estimates now supplied by the Director of Agriculture are mostly based on the outturn of crop in agricultural farms where scientific methods of cultivation are generally practised. The village accountant's figures certainly need very careful scrutiny as the estimate in annas is often a result of guess work.

I cannot say anything about other statistics given in the annexure. But I may venture to express the opinion that they seem more reliable than agricultural statistics, as they are not based on averages and guesses.

Q. 2.—I shall deal mainly with the Madras figures, although I may later on endeavour to state briefly the corresponding figures in some of the other provinces. From the latest census report it will be seen that out of 100 persons, the number engaged in agricultural and non-agricultural occupations is 70 and 30 respectively. Dr. Slater in estimating non-agricultural income of this Presidency rightly refused to adopt the percentage arrived at by previous enquiries, viz., 50 per cent. The average adopted for the whole of India cannot be applied to this Presidency. Adopting the estimates of Dr. Slater, i.e., non-agricultural income at 43 per cent and the number engaged in non-agricultural occupations as 43 per cent, the income *per capita* will naturally vary. But we must take into account another fact. There are many who are dependent on agriculture as well as on other occupations. There is the tendency also, as remarked in the census report, for every one to claim connection with the soil, though they may not be actually engaged in agriculture. We must make allowance for this. Moreover, the figures given by Dr. Slater relate to a year when the prices owing to war and other circumstances were very high. To arrive at a correct estimate of agricultural income, the figures for a number of normal years, say five or ten, must be taken and the average should be arrived at. That will give us approximate income. Further, it is open to argument, whether in arriving at non-agricultural income, the standard applied by Dr. Slater is correct. The best method, if correct estimates are available, is that suggested by Professor Shah and Mr. Khambata.

Q. 3.—I agree there are no corresponding figures in India. I do not admit that the bases of calculation have been exhausted in these countries.

Q. 4.—As regards non-agricultural income, a Bill of the kind introduced in the Bombay Legislative Council would be useful; more accurate statistics would then be available. A detailed enquiry, once made, even if expensive, would benefit all future enquiries.

Q. 5.—I do not know how long it took, what permanent value it has. I am therefore unable to express an opinion.

Q. 6.—I favour legislation of an all-India character.

Q. 7.—These estimates will enable the Government and the public to know and appreciate how far the economic condition of the people has improved. While they may be useful to determine the incidence of taxation, they would help Local Governments to compare notes, to formulate schemes for expansion of revenue and for taking in hand works which would secure industrial or other progress in the province.

Q. 8.—These are not sufficient to form the basis of an estimate of the incidence of taxation on different classes. Intensive economic enquiry in each province and in each district and taluk centres must be conducted. The great disparity in the rate of assessment in the districts is due to this failure.

Q. 9.—I would divide the population with reference to taxes into two classes: —

(1) Agricultural.

(2) Non-agricultural.

One mode of arriving at primary incidence only is to divide the aggregate amount of taxes by the number of people paying them. But this is not possible so long as indirect taxes paid by consumers exist. In the circumstances of the case the amount of the taxes should be divided by the whole population; such taxation may not present any difficulty. I am strongly of opinion this would be merely palliative. To get at the wealth of a country, the taxable capacity and the equalisation of incidence, a careful economic enquiry should be made. That must precede everything else. What we want to know is, whether the methods adopted have touched those that can bear, have avoided those that cannot, and whether individuals and the country stand to progress by the methods adopted.

Q. 10.—The figures from the budget show that the income from the sources mentioned is not inconsiderable. I must say that the tree-tax in Madras is capriciously levied and that fines are too heavy.

Q. 11.—Railway cess, road cess, survey stone tax, etc.

Q. 12.—The tax on fuel removed from the forests may be treated as tax.

Q. 13.—The main object of a Government monopoly has been and should be to pioneer and to educate. As in schools, etc., Government business should serve as models and no more. In my opinion, a bare return on the capital invested is sufficient, unless there are undertakings which do not promote general public wealth but promote the interests of a particular section.

Q. 14.—It is indirect taxation. For example, the surplus from railways goes to the exchequer, and with the nationalisation of railways, it is difficult to regard the fares as not being part of revenue. These observations apply *pari passu* to the other instances mentioned..

Q. 15.—Speaking for Madras, I think this kind of tax exceeds the anticipated income from the outlay. I hope to give figures later on.

Q. 16.—If there should be further taxation, I would prefer a lump payment to periodical visitations.

Q. 17.—I can say a great deal on this subject. One of the primary conditions between landlord and tenant is that the landlord should have spent further sums on the irrigation sources. I think the tenancy law is juster than the revenue law.

Qs. 21 and 22.—In India there are no fixed principles, mainly because the sources of taxation are varied. Permanent settlements in some places have excluded large areas from revision. Government proceed on stereotyped lines, without taking a large view of rights and duties of all persons who derive equal benefit from the machinery of Government. I am old fashioned enough to prefer payment by the consumer; but I doubt very much whether direct taxation can be avoided. The best principle is to enable the exchequer to get from the tax-payer that amount which represent

the protection and privilege he enjoys for carrying on his vocation. This is my ideal. In practice, I am inclined to agree with the view of Bastable.

Q. 23.—I do not agree with the statement in regard to drink. It does not take into account the condition of the family, but only of the individual. It imposes an economic waste in the long run, by prematurely disabling the worker, by impoverishing his family and so on. This is especially the case with those who drink country liquor and arrack.

Q. 24.—I am in favour of the former, but not the latter as railway travelling has almost become a necessity.

Q. 25.—I do not think it is possible to draw now any such line of demarcation. The evil is spreading rapidly amongst classes who by religion or custom are prohibited from taking intoxicants. If I understand the implication aright, the suggestion is to penalise the community in some other way for these virtues. I hope I am wrong.

Q. 26.—My answer is given to Qs. 21 and 22.

Q. 27.—Inability to pay must be the test for exemption. In the case of many indirect taxes such as salt duty, etc., every member of the community is made to pay some tax or other. While this principle may be just, I would exclude all incomes from whatever source (agriculture not excluded) which leave no margin for effective saving.

Q. 28.—It is in the main a convenient method of representation.

Q. 29.—Direct taxation offers no difficulties for calculation. I, as at present advised, would not make indirect taxation the basis of representation. When we reach the stage of manhood or womanhood suffrage, these difficulties would disappear.

Q. 30.—However convenient it may be for purposes of collection, it imposes many disabilities and is opposed to Indian sentiment.

The same can be said of the capitation tax. Poll tax would raise a storm in the country and would make the Government immensely unpopular.

Q. 31.—None of these are suited to Indian conditions.

Q. 32.—They are more objectionable than the taxes mentioned in the question.

Q. 33.—I am in favour of the present rates. It is just possible to levy a high rate on the profits made out of the manufacture of luxuries. It is a system attended with danger. The taxable income should be raised to Rs. 5,000 at least.

Q. 34.—While retaining the present graduated scale, I would like exemptions of the kind given in England to be incorporated.

Q. 35.—I would advocate differentiation. Where an enterprise is calculated to advance national wealth, I would tax it very lightly as compared with business which is based solely on profit earning calculations.

Q. 36.—Very difficult.

Q. 37.—I favour the continuance of super-tax on companies.

Q. 38.—I am for the continuance of the present system. The agriculturist of Madras is the most heavily taxed of his compeers. I see no warrant for submitting absentee landlords to high taxation. He suffers in income by his absence. That is penalty enough. I see no justification for the mortgage-owner being put on a different scale.

Q. 39.—I totally disagree. These gentlemen know nothing of the plight of the Madras agriculturist.

Q. 40.—While it is true there is no exemption in the case of the payer of land revenue, I am not in favour of reducing the limit of exemption in the case of income-tax. The income-tax assessees generally live in urban areas where cost of living is high and, as in rural areas, all the members of the family do not earn and contribute to the expenses of the family. I have already indicated that tax on land should be abolished in the case of all agriculturists who get from their lands no more than what is necessary for consumption.

Q. 41.—I do not think there is any ground for such a reproach. The methods now adopted have removed to some extent the complaints against the Income-tax Department.

Q. 42.—Varying general forms may be prescribed for different sources of income. That would facilitate collection and tend to business-like habit. Too rigid a compliance at the outset may lead to abuse.

Q. 43.—I have no opinion.

Q. 44.—Issue of income-tax-free securities has not led to mischief, so far as I am aware.

Q. 45.—I have no opinion.

Q. 46.—I think the whole matter requires reconsideration as is evident from the discussions in the Assembly.

Q. 47.—I prefer the English method which is more equitable and just.

Q. 61.—I do anticipate in the near future: in all probability, a general proposition will be pressed for decision.

Q. 62.—By retrenchment of expenditure, which in my opinion is quite possible, and by imposing taxes on those on whom at present they are comparatively light.

(a) (1) I approve of this. The limit of exemption should be somewhat high.

(b) The Bombay scheme is more reasonable.

Q. 63.—The statements quoted may hold good in the case of other countries. Of course, the declared excise policy of the Government is in accordance with all the statements except the last one. Indian experience is that increase in excise tax is not followed by reduced consumption. It only impoverishes the drinker and those dependent on him the more.

Q. 64.—I have never known Madras to be behindhand any province in the imposition and collection of revenue. It is our virtue and our misfortune.

Q. 65.—All rates of duty below Rs. 25 are, in my opinion, low. It is possible not only to reduce variety but also impose a uniform standard of duty.

Q. 66.—I do not believe increases in duty have generally resulted in increases in illicit production. Even if that has happened, it is not very considerable. The number of cases of illicit production detected may be due to the greater vigilance exercised by the Excise Department.

Q. 67.—Just as foreign possessions like Pondicherry and Karikal do it, there should be no difficulty in adjusting the relations between provinces.

Q. 68.—I would.

Q. 69.—I have no opinion.

Q. 70.—I have no idea.

Q. 71.—For the reasons already stated a uniform rate can be imposed on *ganja*, *bhang*, *charas*, etc.

Q. 72.—Yes.

Q. 73.—From the point of view of taxation, the retail vend is satisfactory.

Q. 74.—There is the danger of monopoly as stated in the question. The bidders at auction can combine and bring down the sales. Taking this fact into consideration, perhaps fixed fee system with a progressive rate of increase in fees may be preferred. This will also incidentally avoid the evils of the auction system.

Q. 87.—I am in favour of taxes on advertisements, betting, entertainments and luxuries.

Q. 88.—I agree these transactions facilitate collection, I have no special observations at present on them.

Q. 89.—I am strongly of opinion that justice should not be sold. Taxes on judicial proceedings either in the form of stamps or court-fees should be limited to pay the cost of courts and no more.

Q. 90.—I do not agree with Hobson.

Q. 91.—I have no views on the subject.

Q. 92.—Perhaps water-rates come under this category and court-fees, etc., when they exceed the limit I mentioned above.

Q. 93.—I believe it is legitimate to charge a higher sum as registration fees. It does not stand on the same footing as court-fees.

Q. 94.—Stamp duties on transactions.

Q. 95.—I am in favour of extension of entertainments duty.

Q. 96.—It is not easy to define the terms. In rent, there is the element of profit, of sharing and of contract. In tax, the element is payment for security enjoyed. There is no question of tax-gatherer sharing the profit. I think the land tax is a tax pure and simple. Historically and ethically, that is the correct position. I think the East India Company recognised this principle.

Q. 97.—To a great extent.

Q. 98.—I concur generally with all the observations.

Q. 99.—Temporary settlements lead to differentiation between district and district and are capricious and unsound. I can write pages about this. This can be abandoned. I indicated this already.

Q. 100.—Rs. 2,000 a year is the subsistence level. I believe it is possible for a taxing officer to ascertain the agriculturist's income.

It may be that such an exemption would lead to further fractionisation of holdings. But that cannot be helped.

Q. 101.—I approve of tax on fractionisation. A law may be enacted, by which fractionisation beyond economic holding should be prevented. Compelling the sharer to sell away his share can be enacted into law.

Q. 102.—The principle enunciated should not be applicable to waste land brought under an irrigation scheme. The principle has no application.

Q. 103.—This field of taxation should be made over to local authorities, who must be instructed to apply a uniform rate applicable to all districts alike.

Q. 104.—Q. 3 would give a fairly accurate idea. If my idea of entrusting to the provinces the work is accepted, this process need not be considered elaborately.

Q. 119.—I am not in favour of any new taxes at present. The agriculturist is groaning under heavy taxes. The capitalist must have enough to fall back upon to make the industry stable and to start new industries. Retrenchment must be resorted to. Our administration is too costly for us.

Q. 120.—It is a capital idea to tax marriage dowries, luxuries, such as race horses, motor cars and costly imported articles—no more.

Q. 137.—The question deserves examination. There are difficulties in the way.

Q. 138.—Nothing but the amount left by the deceased should be taken into account.

Q. 139.—The propositions appear to be unexceptionable.

Q. 140.—I agree with the scale of duty in the United Kingdom except its latest stages, beginning with 50,000 and upwards. I do not think anything more than 10 per cent should be taken by the State.

Q. 141.—I think the suggestion contained in (a) is the only possible method. Even then, the question is whether it is property that is being inherited.

Q. 142.—I accept the proposition.

Q. 143.—Sir James Stephen's diagnosis is accurate.

Q. 144.—Taxing of movable property other than shares may lead to inquisitional proceedings. Balance in the bank and debts outstanding may be easily traced but not cash in hand, articles of value, jewels, etc.

Q. 145.—The Central Board of Revenue through the Income-tax Department.

Q. 146.—Rs. 5,000 is the appropriate exemption limit.

Q. 147.—I am in favour of a combination (3) and (4).

Q. 148.—While this may sometimes happen, the customs has proved to be a source of elastic revenue.

Q. 149.—The present system requires revision considerably.

Q. 150.—It is possible.

Q. 151.—Land revenue should be solely provincial.

Q. 152.—I accept the reasoning.

Q. 153.—The export duties imposed may be so framed as to allow sufficient scope for the province to impose a surcharge which would go to the provincial revenue.

Q. 154.—I would advocate the transfer of the excise including foreign liquor and opium to the provinces.

Q. 155.—Tobacco also may be treated as a provincial subject for purposes of taxation.

Q. 156.—I incline to the view that income-tax primarily belongs to the Central Government; large incomes are made from exports and imports. The machinery is that of the Government of India. The protection is from that quarter. If there should be a division, certainly the Central Government cannot have less than one-half.

Q. 157.—The above considerations do not apply to stamp duties. These duties must form part of the provincial revenues. No distinction need be made between judicial and non-judicial stamps.

Q. 158.—I cannot think of any at present.

Q. 160.—I agree.

Q. 161.—No limit need be imposed as the District Boards are subject now to the control of the electorate.

Q. 162.—I do not think the principle sound. Each must contribute to the other.

Mr. Seshagiri Ayyar gave oral evidence as follows :—

The President. Q.—You are an ex-Judge of the Madras High Court?

A.—Yes.

Q.—You were also member of the Fiscal Commission?

A.—Yes.

Dr. Hyder. Q.—In your answer to Q. 1, you say that the crop-cutting experiment has been abandoned in Madras.

A.—Yes.

Q.—You also say that the crop-cutting experiment of Madras is less objectionable than the others.

A.—I say that the crop-cutting experiment is less objectionable than the other experiments tried. I know nothing about the crop-cutting experiments elsewhere.

Q.—Why has it been given up in Madras?

A.—Because they have to go from village to village in making the experiments and that was considered to be expensive.

Q.—You have got the *karnams* under the supervision of a revenue officer. The revenue officer will have to go to each of the village in any case and how can the experiment be expensive?

A.—Before you make an experiment, you have to select a number of villages, and calculating the yield in these villages means a lot of time. That was perhaps the reason why it has been given up. But I do not know exactly why it has been given up. I know that it has been given up.

Q.—You say that the estimates made by Professor Shah and Mr. Khambata are more reliable, and I daresay that you have read the work of these two gentlemen.

A.—Yes, to some extent.

Q.—Does it not strike you that they left out services altogether?

A.—That is so. They have not obtained information from the Government regarding the income, etc., of the services; and I was going to suggest that in adopting the Bombay Bill as an all-India Bill, you will have to ask the planters and the Government to give similar information. That is my idea. The Bombay Bill is not quite all right. It requires to be supplemented by the information given by the planters and others regarding the wages paid,

and the Government should be compelled to give information regarding wages paid to their servants. To that extent, I think, you are right in saying that it is not quite full.

Q.—There are two concepts. The first is the national income, and the second is national wealth; and my impression is that in estimating the national wealth, they have left out services altogether.

A.—Yes.

Q.—And the other thing is that they regard the national income of the country as so many bushels of rice and wheat in the form of consumable agricultural products. The services rendered during the course of the year and such other things do not enter into the national income. And I therefore ask you whether you think that the estimate of Shah and Khambata is correct.

A.—I think my statement is that it is better than other estimates. I do not say that it is completely right.

Q.—I do not quite understand what you mean by your answer to Q. 3. You say: "I agree there are no corresponding figures in India. I do not admit that the bases of calculation have been exhausted in these countries". I do not quite understand your second sentence. What is it that is in your mind?

A.—If you turn to the appendix of the questionnaire, you find that information is given as regards this: and my impression is that every available source of information has not been exhausted, and therefore, I would not regard the enquiry made under those conditions as sufficient for Indian purposes.

Q.—Proceeding to Q. 5, I may inform you that it took seven years for the results of the English Census of Production to be published. Do you think any effort in this direction costing so much money and so much labour would be worth the results?

A.—I certainly think so. Even if it takes ten years, I do not think that you should grudge it. You must have a complete economic enquiry. Once you make the enquiry, you lay the foundation for all future enquiries to be done in less time; and I think it would amply repay the expenses that would be incurred.

Q.—What is your idea of an economic enquiry? Would you enter into the economic circumstances of 320 millions of people? Is it your idea?

A.—I do not know whether you imply that, I suggest that each individual should be examined. My idea was this. Take, for example, some typical villages in a taluk and some typical towns and also unions and so on. If you make enquiries in those villages, towns and unions, you will be able to get a fairly accurate idea of the conditions of the whole district and of the whole Presidency.

Q.—Don't you think that it will lead to suspicion and trouble in the villages?

A.—I do not think so. I think we are in better times than your question seems to suggest.

Q.—In answer to Q. 12, you say, "The tax on fuel removed from the forests may be treated as a tax." I do not quite understand why you treat it as a tax. I put this to you. You are the owner of a forest containing timber of all sorts. You give the right to other people to extract the timber. You will naturally charge them. The forests in this country are the property of everybody and the State represents everybody.

A.—Now, take a public forest. You get what is called a permit before going into the forest, and the permit fee is in my view a kind of assessment. I believe each private forest owner pays Government a certain amount of tax. Take the case of Malabar where there are large forests owned by private persons. At any rate, my impression is that many of these forests, especially in Malabar and South Kanara, are private property. These owners give the cutting of timber on lease, and the lessee takes the income, and the Government assesses the owners at a particular rate.

The President. Q.—Assesses to land revenue or to income-tax?

A.—I think it is land revenue. Therefore, I thought that there would be no objection in regarding a tax on fuel as part of land revenue.

Dr. Paranjpye. Q.—But are they charged for the removal of the forest produce over and above the land revenue? The people who get permits from the owner of the forest cut the firewood and remove it outside, and is there a further tax on it by the Government?

A.—No.

Q.—Then how do you say it is a tax on fuel?

A.—I was speaking of the Government forest.

Q.—The object is to compare Government forests with private forests. If Government charges the same amount as would be charged by a private owner of the forest, then how does it become a tax?

A.—So far as the Government is concerned, when they issue a permit and charge the fee, it goes into the Government exchequer, and there is no other tax. Therefore, I regard any license given for cutting as part of the revenue which the Government derives from that forest. I, therefore, do not see why the license fee charged for cutting wood should be regarded as not coming within the category of tax which the Government levies.

The President. Q.—But a private owner of trees will not be taxing people when he charges a certain fee for the extraction of timber.

A.—But the private owner pays tax upon his holding.

Sir Percy Thompson. Q.—Would you regard all that the Government gets as taxation—any money that the Government gets?

A.—Not the whole of it. But generally it would be a tax.

Q.—Suppose you have a Government that undertakes electric lighting and charges for it. Would you regard it as a tax?

A.—No.

Q.—Then how do you regard the charge for the timber as a tax?

A.—Because it is for trees grown on land on which land revenue is taken.

Dr. Paranjpye. Q.—There are certain lands which are purely private property and other lands which are purely Government property.

A.—How do you distinguish between a forest and ryotwari land? As regards the right of the Government to the land, if you say that the land belongs to the Government, does it not necessarily follow?

The President. Q.—If it has been notified as a reserved forest under the Forest Act, there will be no question of any private ownership. It is either Government property, or else all rights have been acquired by Government.

A.—No; absolutely none. Therefore, so far as the income from the reserved portion of the forest is concerned, it being Government property and there being a certain amount charged, I think it would be right that that fee should be regarded as part of the tax paid by the people who go to the forest.

Dr. Paranjpye. Q.—How is it a tax? It is money paid for goods given in return.

A.—I have not yet been—if I may say so—able to distinguish between various kinds of property owned by Government. I can understand their being owners of certain industries for the purpose of pioneering and so on. But in regard to land and forests, I do not see that there is any distinction between one class of ownership and another class.

Q.—Suppose in Madras there are Government bungalows and Government lets them out to you and a rent is charged. Would you regard it as a tax?

A.—No.

Q.—Then what is the difference between that and this?

A.—I think there is a good deal of difference.

Sir Percy Thompson. Q.—Suppose you have a forest in private ownership and fees are charged for cutting wood. Supposing in course of time the forest passes to the Government and it proceeds to charge exactly the same fee as the private owner charged. Would that be a tax?

A.—I think it would be regarded as a tax. But I see your point, namely, that it should be regarded more as income rather than a tax. Probably, to that extent I am liable to correction.

The President. Q.—With regard to Q. 3, do you think that 70 per cent of the people are connected with agriculture?

A.—Even persons who hold mortgages call themselves owners of property. There is a great sentiment in this country with regard to the owning of land. I know of one particular instance and you Mr. President must have known it too. In the district of Trichinopoly in Nirur, for about 10 or 12 years, about 40 acres of land have been washed away by floods and people pay taxes in the hope that they can reclaim the land. The attachment is so great that they pay the tax even when they do not get any income.

Q.—The claim that 70 or 80 per cent of the population are dependent on land is rather an exaggerated estimate.

A.—I do not say they are dependent on land, 70 or 80 per cent are agriculturists. When you say 'dependent on land', it may not be quite correct. You can say they are connected with land.

Q.—In regard to Q. 8 you say, "The great disparity in the rate of assessment in the districts is due to this failure." What exactly do you mean by 'this failure'?

A.—Failure to make an intensive economic enquiry. Take, for instance, the Coimbatore and Trichinopoly districts. I have been just looking into the assessments there. The highest assessment in Coimbatore is Rs. 11-8-0, and in Coimbatore an acre sells, at Rs. 5,000, whereas in Trichinopoly it sells at Rs. 1,500. On land which gives one-third of the income they pay Rs. 14-4-0 in one district, whereas on the other they pay Rs. 11-8-0.

Q.—That is due to the fact that one settlement was made at a certain commutation rate and the other settlement at a different commutation rate.

A.—Yes. But if you once have an enquiry and come to certain conclusions as a result of that enquiry, then the fact that you are going to base the assessment upon the market prices for 20 years will not give a marked difference between one district and another. You have not made such an enquiry, and because you depend upon the settlement, this disparity exists.

Q.—You think that one of the results of the economic enquiry would be radically to alter our system of land revenue?

A.—Yes, certainly; and it ought to.

Dr. Hyder. Q.—In answer to Q. 13, you say: "In my opinion, a bare return on the capital invested is sufficient, unless there are undertakings which do not promote general public wealth, but promote the interests of a particular section". Government undertakings are post offices, railways, irrigation works, etc. May I ask you particularly in regard to irrigation, whether it serves the interests of a particular section or all sections of the people?

A.—An irrigation project in a particular district would only serve that district.

Q.—That is a commercial or semi-commercial undertaking; and you say that with regard to commercial undertakings, only a bare return should be realised, unless they are undertakings which do not promote general public wealth, but promote the interests of a particular section. Now, may I ask you whether your irrigation promotes general public wealth or the welfare of a particular district or of a section of the people?

A.—It does not promote general public welfare.

Q.—So you would charge for your irrigation works more than the bare eturn?

A.—Only the interest chargeable upon the capital for constructing the particular work.

The President. Q.—With regard to Q. 14, you say that the "surplus from railways goes to the exchequer and with the nationalisation of railways, it is difficult to regard the fares as not being part of revenue". Now, we are instructed to readjust the taxes within the present limit of taxation. It is not part of our business to propose anything in the shape of new taxes.

A.—I am glad to hear that.

Q.—What we set ourselves to do is to find out the sum total of taxation within which we can make this adjustment, and if you take all sorts of Government revenue as taxation, you give a large scope to our task.

A.—I think it has been pointed out as regards properties owned by Government that the income derived from them should not be treated as taxation. I am liable to be corrected to that extent.

Dr. Hyder. Q.—With regard to your answer to Q. 15, I do not quite understand what exactly is in your mind when you say, "Speaking for Madras, I think this kind of tax exceeds the anticipated income from the outlay". Will you please explain?

A.—I have got some figures with me taken from the Administration Reports for the year 1923-24. I have taken three systems. For the Godavari delta, the estimate for the cost of construction, direct and indirect, is Rs. 1,71,91,244; total capital outlay, direct and indirect, Rs. 1,63,23,020; accumulated surplus revenue since it was started Rs. 9,89,42,663; gross receipts, direct and indirect, Rs. 42,57,145; working expenses, direct and indirect, Rs. 9,14,391; percentage on capital outlay, 20.48. I also give similar figures in this statement, which I will hand over to the Committee, as regards the Kistna and Cauvery deltas. As regards the Kistna delta, the percentage on capital outlay is 19.25 and as regards the Cauvery, it is 23.48.

The President. Q.—Now may I put this to you? We take it that nature has been very good to the Godavari district; works have been comparatively cheap to construct and even at the five rupee water-rate, there is a surplus revenue. Now come to the Nellore district; we find that in order to pay the interest on the capital outlay, you have to pay a water-rate of, say, Rs. 10. Then come to Cuddapah; you have a number of schemes locked up in the Secretariat which cannot be put into effect, because you have to put up the water-rate to Rs. 15. Therefore, the result is that on your principles, you came to the *reductio ad absurdum* that the more unfavourably situated the land, the more one has got to pay for the water-rate.

A.—Your suggestion reduces itself to this—that the people of Kistna and Godavari districts ought to be taxed in order to provide water for the people of Bellary and other districts. Is that right?

Q.—In cases where you have not spent anything and nature provides the water, would you charge dry rate?

A.—That applies to the whole province. I do not understand your idea of taxing me in order that somebody else might be benefited.

Q.—What I suggest to you is that you should pay a share of the increased return.

A.—If you had borrowed from the Government of India you would have to pay 6 per cent interest. You may take from us 12 per cent. But why do you make it 36 per cent?

Q.—I suggest that the cultivator has no concern with the cost of the work.

A.—Have a sinking fund after the interests have been provided for. As soon as the capital has been recovered, make that available for places where you cannot get as much income as you would from these operations. Instead of that, to go on taxing me in order to benefit somebody else is not right.

Dr. Paranjpye. Q.—It is not taxing you, but not letting you get as much benefit as you might have got.

A.—I do not see that.

Q.—Suppose you had a profit of Rs. 100 before the works were started and owing to irrigation the income rose to Rs. 300; really speaking you are making Rs. 200 for no effort of yours.

A.—If I pay for a particular thing————.

Q.—You have got Rs. 200 for no effort of yours. It is a windfall. You have spent no money. Really speaking, Government is entitled to the whole of that Rs. 200. Of course, the result of that would be that the ryot would not take water. Government will probably take Rs. 150 on that land and you will get Rs. 50. You might still consider it worth while to get the additional Rs. 50, although Government takes Rs. 150.

A.—I will put the converse case. Supposing the Government had allowed the people to dig their own channels for the purpose of improving their own land. Supposing I had spent 10 crores for the whole of the district of Trichinopoly, can the Government rightly say "You have spent 10 crores. You should take only about 10 per cent. You are actually making 50 per cent. So give us the rent."

Q.—That would be an improvement made by you.

A.—When the Government spends money in a particular district, it does so expecting a particular return.

Q.—That is merely an administrative consideration.

A.—It is a consideration which they publish to the world. It is not an administrative consideration. Whenever they go to the Government of India they say we cannot venture upon this project, because it would not give us 6 per cent. Does it stand to reason that you should go on increasing your income?

Q.—From the point of view of the interests of the Presidency, you should not have all the benefits.

A.—Have a sinking fund. After providing for interest, if there is an excess, take it for unproductive works.

Q.—We are not considering the problems of expenditure. Presumably, if Government gets more resources, not being unjust, it will spend it in the best way possible. We are not going to consider that question at present.

A.—I should not be taxed for the benefit of somebody else.

Q.—You are not taxed.

A.—I have to pay more.

The President. Q.—Do you accept the principle that taxation should fall first on unearned income?

A.—Until Lloyd George thought of it 20 years ago I do not think unearned income was thought about seriously. Since then, it has been regarded as part of their own property by the Government. I don't think Government has a right in every case to unearned income.

Q.—Don't you agree that taxation should be on surplus?

A.—I do not think so.

Sir Percy Thompson. Q.—Suppose there is a piece of land yielding Rs. 100; Government may come and say we are prepared to undertake certain expenditure which will increase the income to Rs. 300. Would you offer only Rs. 5 for this? What will be your answer?

A.—But would you allow me to spend my own money to improve my lands, so that I may have all the benefits?

Q.—The answer of the Government would be 'certainly'. But if it is agreed that Government would increase the value of land from Rs. 100 to Rs. 300?

A.—If it is the original contract I have no objection to it. You carry on these projects on the distinct understanding that they will pay a certain amount. If you go on with this project on that understanding, does it stand to reason that you should, after having got that income, go on increasing it?

Q.—When the Government undertakes a project, it examines it and satisfies itself as to how much it would pay. But there has never been a contract that the charge for water should be limited to a bare return.

A.—I do not say there is a direct contract; but there is an understanding.

Dr. Paranjpye. Q.—When this Government wants to borrow from the Government of India, the Government of India wants some security for the money and they show that the property would yield so much. It is for that purpose that this Government represents the return on the scheme to the Government of India.

A.—I respectfully beg to differ.

Dr. Hyder. Q.—You say you are in favour of indirect taxation?

A.—Yes.

Q.—When it comes to representation, you would like to have a direct tax. You would not make indirect taxation the basis of representation?

A.—That is the old-fashioned view. If it is indirect taxation, unless there is manhood suffrage, you won't be able to get at the electorate properly. In the direct tax, it is easy to find out the men who are entitled to vote. Take the man who consumes salt. Every one of us, to some extent or other, would pay some indirect tax. If you make that the basis of the electorate

you must have manhood suffrage. So that, so far as the determination of the electorate is concerned, the proper procedure is to find those who are paying taxes directly to Government. That would be the easiest mode of getting at the persons who should be given the right of voting. In the other case, I was thinking of the way Government was getting its income—the most feasible mode of getting income. I do not see any inconsistency between the two.

Q.—In other parts of the world people are moving in the direction of direct taxes.

A.— I still prefer indirect taxation.

Q.—You say that Indian sentiment is opposed to a poll tax. I would ask you to state whether there were any poll taxes in ancient India.

A.—I believe in some reign there was some such attempt made to have a poll tax. I do not think to any considerable extent there was any poll tax. I think there was some kind of pilgrim tax in some place.

Q.—Then how is it that Indian sentiment is opposed to it?

A.—I do not see that it finds favour with the people.

Q.—In all these 3,000 years was there no poll tax in ancient India?

A.—In Kautilya's "Arthashastra" it is said that a poll tax is sinful. I think Manu also says the same thing. I will make a note of it and send you some authorities.

Q.—There was a tax even on mendicants. There are other oriental countries like Burma where you have poll tax.

A.—In Burma the attempt to levy a poll tax is raising a great deal of difficulty.

Q.—Burmese sentiment was not against it.

A.—So far as the Indians are concerned, they have been opposing the poll tax; that shows that the Indian sentiment is opposed to it.

Q.—It is many years old. It has been levied by the Burmese kings. That shows that the Burmese sentiment is not opposed to it. So the orientals are not opposed to this tax. If you could enlighten us with law books and other authorities, we will be obliged.

A.—I will send you a memorandum; but I do not think that in India there has been to any considerable extent any system of poll tax. I am not sure in the Muhammadan rule there was anything like the poll tax. I know there had been some pilgrim tax.

Q.—If you can give us any reference, we will look into it.

A.—"Arthashastra" and the law books of Manu as well as the history of all the oriental countries may be referred to. I am speaking of the Indian sentiment. My strong opinion is that there has been nothing like the poll tax. However, I will look into the matter.

Q.—In the Turkish Empire, either they have to render military service or pay.

A.—It is against persons who have got into that place from outside. I am not quite sure.

Sir Percy Thompson. Q. 33.—Are you suggesting that you should tax different industries at different rates?

A.—I had in mind Baden Powell's statement. He says all evils should be highly taxed, such as liquor and intoxicating drugs. Next he would tax luxuries, such as motor cars. Then fine arts should be taxed. He speaks of grain and the produce from land as the last subject for taxation.

Q.—It is very difficult to administer all these varying rates.

A.—Don't you know that there are three hundred varieties of such taxation under the Customs Act? Yet there has been no difficulty there.

Q.—That is a question of fact. It is quite different with income-tax.

Dr. Paranjpye.—Your suggestion applies more to excises. There is no reason why you should tax at higher rates an income derived from the manufacture of luxuries.

Sir Percy Thompson.—Surely the man to tax in this way is the consumer of luxuries, not the manufacturer.

A.—The seller always gets all he can from the consumer so that the seller gets all the profits.

Q.—If you put an excise duty on alcohol, the seller passes it on to the consumer. That is right. But I do not quite see why you should make the manufacturer of alcohol pay more tax than the manufacturer of bread.

A.—Such manufactures should not be encouraged.

Q.—Such manufactures are consumed and therefore put your higher duty on the consumption.

A.—If your idea is to prohibit the manufacture: but Baden Powell says that you should put as high a duty as possible upon these manufactures. I am referring to Baden Powell's view.

Q.—In your last sentence you say that the minimum should be raised to Rs. 5,000.

A.—Yes. That is the true feeling in the country.

Q.—The present exemption limit is as big as in England, and it is far above the minimum on the Continent.

A.—You must leave sufficient margin to enable the people to start industries. You are taxing too much and the result is we are not able to start industries. India is not like England where industries are in a flourishing condition. You must enable us to start work which will ultimately be more paying to Government.

Q.—Have you any idea of the difference between the yield at the old and the new rates if your suggestion were accepted? I am certain that it would reduce the income-tax by 50 per cent.

A.—But the indirect benefit would be great ultimately.

Dr. Paranjpye. Q.—As a matter of your own experience, do people whose incomes are up to Rs. 5,000 invest their savings in industries?

A.—They can.

Q.—Do they or do they not invest their money in ornaments?

A.—They do take shares nowadays in companies.

Q.—Is it not a fact that almost every one in Madras has got two diamond ear-rings?

A.—There was a craze sometime ago for ornaments. But that is dying now. That is largely due to Gandhiji, if I may say so.

Sir Percy Thompson. Q.—Q. 40. If you exempt from land revenue people with incomes below a certain amount, would not the immediate effect be to encourage fractionisation of land?

A.—Take a man in trade with Rs. 20,000; he gets an income of Rs. 2,000 which is exempt from taxation. If a man has got land worth Rs. 20,000, he has got to pay tax.

Q.—It all depends upon whether land revenue is tax or rent.

A.—I hope this Committee will decidedly rule it to be a tax and not rent. I take a strong view on the matter.

Q.—If below a certain amount you exempt from land revenue, is it not a direct encouragement to split up the land?

A.—I do not think so; that cannot be the direct result. But there must be a law, making it compulsory not go beyond a certain degree of sub-division and then to compel the sharer to sell it to his co-sharer. There is a law as regards sale of houses. If there is a house about 20 feet in breadth and four people want to divide it, the law says, one of them will have to sell it to the other. If there was a similar law in regard to land, it would solve the problem. I mentioned this to Mr. Buckley as the only remedy, so far as fractionisation is concerned. I do not think there will be any difficulty with regard to this matter. There ought to be a law like that.

Q.—Would you not interfere with the joint family system and rights in property?

A.—If you make it compulsory, I do not think there will be any difficulty in this part of the Presidency. There will not be the same difficulty as in Bombay, with regard to the Hindu Law of Inheritance.

Q.—The eldest son must be given the first right and the others must become landless people?

A.—They will have money.

Sir Percy Thompson. Q.—Q. 46. You say "I think the whole matter requires reconsideration as is evident from the discussions in the Assembly." Can you give us a reference to the discussions?

A.—We had a discussion in the Legislative Assembly when I was a member, and I did not commit myself one way or the other; it is a matter which requires a great deal of discussion.

Q.—This double income-tax provision has only been in existence since 1920; you think it now requires reconsideration?

A.—Yes.

Q.—What is your objection?

A.—If I remember right, the general objection which was raised in the Legislative Assembly—I took a very minor part in it—was that no income should be taxed twice over.

Q.—That is precisely what the rules are intended to stop.

A.—Taking the case of super-tax, in the case of companies as well as of individuals, a company earns an income of about 2 lakhs and consists of three people; each of them gets an income of Rs. 60,000; you first of all tax the whole of the company's income of 2 lakhs by super-tax, and you also levy another tax on the individual income.

Q.—You say you favour the continuance of the super-tax on companies.

Q.—True; I ought to add this qualification, 'provided there is no double taxation'. I agree to super-tax, but I am against the double taxation.

Q.—Can we pursue that further? You have super-tax on companies. I am a shareholder and you are a shareholder; I am a rich man, a millionaire, and you a pauper. The company pays the tax, and I being a millionaire also pay the tax. Your suggestion is that it is double taxation and you will relieve me of the super-tax on the company. But you would pay super-tax on the company, being a pauper.

A.—Both are shareholders in the same company.

Q.—Yes; I am a millionaire and you are a pauper and the company pays this super-tax on its profits; you would pay it as a super-tax on the company. I am a rich man and am going to be relieved of it.

A.—How do I pay?

Q.—You pay super-tax on the company.

A.—The company has paid for both of us; you are a millionaire, I sympathise very much with you and I do not want you to pay twice over.

Dr. Paranjpye. Q.—You are paying super-tax, which if the company had not been charged to super-tax you would not have to pay.

A.—On one occasion I would have to pay it.

Q.—You would not have had to pay; but the company is charged super-tax and you are required to pay. You are really not capable of paying.

A.—Take an ordinary case. I have got one share in one company. You have got shares in four companies and you pay super-tax; because you get from all the four companies another income, you are asked to pay super-tax.

Sir Percy Thompson. Q.—I shall try to simplify the matter. I take the case where each of us draws all his income from one company. The company pays super-tax; and passes it on to us by a reduction in our dividend. Both of us pay this. I am also liable to super-tax on my own income. Your suggestion is that I being a rich man should be relieved of the super-tax which the company pays on my behalf, but you should not be relieved of the super-tax.

A.—It is not a question of being relieved so much as a question of paying twice over. Take a case where there is no question of super-tax; but only of income-tax. We are all of us shareholders in a company, and the company pays the ordinary income-tax, not super-tax, and when we get our income, we are told that it is free from income-tax. You and I are in the same position; there is no difficulty at all there. Our tax having been paid by the company, we are relieved from paying anything more upon the dividends we get. Why should it be different in the case of super-tax?

Q.—Precisely. I consider that the super-tax on companies is unsatisfactory.

A.—It is satisfactory only so far as there is one taxation. I am against double taxation.

Q.—If you charge super-tax on the company, there is bound to be double taxation; you cannot avoid it. You must charge super-tax on the individual and on the total income. If you charge super-tax on the profits of the company, it is double payment and you cannot get over it.

A.—If the super-tax is paid, would not that amount be deducted from your other income? If you get a deduction of income-tax after having paid super-tax through a particular company, supposing you are told that the dividend is free from any further taxation, supposing that is deducted from your total income from other sources . . . . . .

Q.—Then the position is this: Here is a rich man who is drawing dividends from a company; he will get his allowance for the super-tax on companies when his accounts are made up.

A.—There will be some anomalies. On the whole I am against this double taxation.

Dr. Paranjpye. Q.—You are against double taxation, but you are not against taxation which a man is fairly charged?

A.—It is not a question of unfairness.

Q.—Would not the effect of that be that poor people would not invest their money in a rich company which will have to pay super-tax? If you were to invest your money in a small business, then you would not have to pay super-tax. On the other hand, if you were to invest in a big company, you would have not to pay much more than what you do now.

A.—That is an argument in my favour.

Q.—Not in your favour, but against super-tax on companies.

A.—If the company is able to pay a large income, I think the Government is entitled to have some share of the income.

Sir Percy Thompson. Q.—Supposing there is a very large company, the shareholders of which are people with small incomes, and the profits are distributed among them, is there any reason that the whole of the super-tax should be borne by these poor people?

A.—You may make a *pro rata* reduction.

Dr. Paranjpye. Q.—The super-tax is 4 annas in the rupee. Simply because you see a big sum of money, you take one-fourth of that?

A.—I think Government is entitled to that income.

The President. Q.—May I take you to the question of poll tax? Apasthamba says: "Each artizan shall do monthly one day's work. In the Vashista and Gautama Dharmasutra, the artizans are to do one day's work monthly by way of tax." But certain people are exempted from taxation, the blind, etc. Does it not suggest that he is in favour of everyone paying a tax?

A.—It is hardly tantamount to a poll tax.

Q.—Coming to excise, you anticipate the introduction of a policy of total prohibition, now or in the near future, either generally or in particular areas. I take Qs. 62, 63 and 66 together. You say that the Indian experience is that increase in excise tax is not followed by reduced consumption. Here is a statement showing the reduction in licit consumption in the year 1923 as compared with the previous quinquennium:—

Central Provinces	58	per cent.
United Provinces	59	,,
Punjab	58	,,
Assam	24	,,
Bombay	29	,,
Bengal	18	,,
Madras	9	,,

In Bihar and Orissa there is an increase of 2 per cent. These are the figures which show that the increase in duty has resulted in diminished consumption.

A.—I believe I can quote your own report where they say that increase in taxation has not resulted in reduced consumption.

Q.—If you are quoting my report it is not for 1923; but I am quoting the figures for 1923 furnished by the various provinces.

A.—My experience is this. If a man takes to drink and if he is made to pay 2 annas instead of 1 anna, he is certain to find the money for his drink at the expense of his wife and children, and he will never forego his drink. He gets his drink to the prejudice of the people at home. Therefore, from what I know of this class of people, once they take to drink they continue to indulge in it. My inference is that the increase in the duty does not prohibit the man from drinking. On the other hand, you make the position of his family worse than before.

Q.—You propound the theory that all rates of duty below Rs. 25 are low.

A.—If you make it too high all of a sudden then the man will not find the money to drink. But if you do it by 2 and 4 annas at a time, you certainly cannot prohibit him.

Q.—As it is, Government never makes increases by 2 and 4 annas. Duty is always in multiples of 10 annas per proof gallon.

A.—That is exactly the kind of taxation which would not deter people from drinking, but on the other hand, would affect the family. If your goal is prohibition, put on as high a duty as possible. But if you are going to do it by instalments, you are affecting the family and not the man who drinks.

Q.—My point is that this sort of prohibition will increase illicit distillation.

A.—I do not think so.

Q.—Most provinces have come to the conclusion that illicit distillation has got completely out of hand.

A.—What about Madras? Would you kindly refer me to Madras? My recollection is that the Madras report says that this has not been the case.

Q.—Speaking from memory, the number of cases of illicit distillation detected has risen to 2,000 a year, from an extremely small figure. I take this from a report of one province. The present taxation has overstepped the limits of the consumers' patience, and illicit distillation is the result.

A.—We in Madras are a great deal more careful. You know well what income we get and how careful our people are in detecting this illicit distillation.

Q.—It is getting out of control in Madras?

A.—You must know it; my recollection is that it is not.

Q.—That is my conviction. Take prohibition. Have you studied the experiments in prohibition in other countries?

A.—I have read something about America.

Q.—Have you studied the official statistics?

A.—The papers say America has gone dry; I do not know about it.

Q.—Here are the official statistics for America. The quantity of spirits distilled—under prohibition—is 124,625,633 gallons. The total value of illicit liquor seized is Rs. 345 lakhs; the total of fines and forfeitures 153 lakhs; the total sentences of imprisonment 2,781 years; the total cost 76 crores.

A.—Is that the story of the temperance reformers?

Q.—Of the Prohibition Commissioner; it costs 76 crores.

A.—I do not know anything about the figures. If your figures are correct, I do not think this prohibition has been a success in America. I have read a great deal in the papers and found a different story there.

Q.—I am very careful in giving only the official statistics on total prohibition.

A.—I appreciate your argument. I can only say from what I have seen in the papers that prohibition is a great success in America. The figures may be correct.

Q.—I am suggesting that it has not been a great success from the point of view that it has doubled and trebled illicit distillation.

A.—I take it that in India the goal is total prohibition. Take the case of opium. I believe the idea is to gradually prohibit the sale of opium altogether. No doubt, we have to proceed step by step.

Q.—May I give another example—it is given in one of the Burmese papers. It says that total prohibition of *ganja* has failed entirely in Burma. The consumption per head of the Hindu population is 16 times as much as that of the Hindu population in British India. That is how prohibition has worked. This is as regards *ganja*. As regards opium, they very recently made an enquiry, and their conclusion is that these confirmed opium-eaters have never improved, and prohibition has had no great effect on them.

A.—The declared policy of the Government is to eradicate this evil of opium altogether.

Q.—In spite of prohibition, this habit is growing. I am asking whether you have counted the cost and studied the figures relating to the matter.

A.—I have not got the same facilities as the Burmese writer had with regard to smuggling of opium. There are certain people who take particular views and they find statistics supporting them in the view that they have taken. Statistics can be used to tell any story. Where a man knows that he will not be punished there will be tendency to indulge to a large extent; but if he feels that he may be detected and punished although he takes to it clandestinely, there will be some restraint on his consumption. Is not that a great gain? It may be that Government may be losing.

Q.—Let me be quite clear. I am not advocating any point of view. I have only to put certain facts and ask your opinion.

A.—I think if there is any idea of restraint upon the man that if he is detected he will be exposed and punished, that itself is a great gain.

Q.—Would you advocate the employment of such force, so that every consumer when he takes to drink would be in constant fear of detection?

A.—It is a question of inquisitorial proceedings that you are thinking of. I think that in the case of people who are indulging clandestinely, I would not be sorry if you put a large restraint upon their freedom.

Dr. Paranjpye. Q.—In one province an attempt was made to stop illicit distillation, and there was loss of life.

A.—On the other hand, you find how peaceful people are in some other places. Where attempts were made to put up arrack shops for sale, the people have banded themselves together and made it impossible for the arrack-vendor to get any large income. There was no complaint of violence.

The President. Q.—May I refer you to the fact that eleven Prohibition Officers were killed in America?

A.—I do not think that will take place here; we are a mild people and I don't think that story will be repeated in India.

Q.—If in America you find about a dozen cases of murder, I do not know what will happen in a country consisting of 350 millions of people. There will be some violence. Under such conditions, how will you work the staff?

A.—I do not think that we need fear very much from the Hindu population.

Sir Percy Thompson. Q.—Do you know that in America outside the ten-mile limit there are ships with huge placards put up giving the price of whisky, beer, etc.?

A.—I do not know anything about it. America has got on wonderfully well; but the figures for some other countries make me hesitate to accept all that is said in the papers.

The President. Q.—Would you accept this suggestion in regard to the vote for prohibition? "Unless this action involves some sacrifice on the part of the former as well as of the latter (i.e., non-drinkers and drinkers), it is undoubtedly a gross interference with the liberty of a minority and difficult to justify."

A.—This is carrying the freedom of the individual too far. The Government will have to put some restraint in all these matters.

Q.—You think the majority can impose this suffering on the minority?

A.—Not suffering. I do not think it should be regarded as suffering at all. There the whole distinction comes in whether it is suffering when a man is told not to drink. I think the majority ought to be given power to interfere with the minority.

Q.—May we jump right away to Q. 93? You think it is legitimate to charge a higher sum as registration fees, and it does not stand on the same footing as court-fees?

A.—Registration affects transfer of property. The same thing does not apply in the case of court-fees.

The Maharajadhiraja Bahadur of Burdwan. Q.—Why do you say that temporary settlements lead to differentiation?

A.—I am against these temporary settlements. Under these settlements the averages as regards prices are taken for twenty years before a new settlement, and they work very hard; great injustice is done between district and district. I shall give for example Trichinopoly district where a settlement has taken place recently. In Trichinopoly district, a part of Coimbatore district has been brought in, and in the latter the settlement was made in 1924, and in Trichinopoly the last settlement was in 1894, and so there was 30 years' difference. Then they take 20 years' average price, and therefore we have to pay more than Coimbatore. I say it is capricious and unsound.

Q.—I take it that you are not against the ryotwari system of settlement but you are against its temporary nature.

A.—Yes.

Q.—In other words, you want long-term settlements or quasi-permanent settlement.

A.—You are right.

Q.—If it was done, the revenue would still be what it can be nowadays. One advantage in the temporary settlement is that you can raise your land revenue from time to time. If you have this settlement, that is, ryotwari system, your increments will be few and far between. Therefore, you see under the quasi-permanent system your income will be limited. I see now the revenue department gives much money for your nation building departments to spend. Therefore, you will be willing, I take it to sacrifice the increment of revenue in favour of a more permanent system of settlement. Is that your idea?

A.—Quite so. Not only that, but it is a safety to the people.

Q.—In other words, I take it, you are one of those gentlemen who think it that a ryotwari system is best as it gives much smaller holdings than in the zamindari system, and you are in favour of a quasi-permanent settlement system.

A.—Yes.

Q.—You approve of a tax on fractionisation. But don't you think that there is a danger that if you legislate it might be construed as a retrograde step?

A.—I don't think there is any such danger.

Q.—You don't think so, but Mr. Menon, the other day, rather agreed that it may be a retrograde step in this sense. For agricultural development, it may not be altogether bad to have smaller holdings.

A.—It is bad for the agricultural development, and I am speaking for the landholder himself. If you find one acre divided into five or six plots, you only make cultivation, manuring, etc., difficult, and in every way it is bad.

Q.—Would it not tend to wipe out the smaller cultivators?

A.—To some extent it may happen, but it is unavoidable.

Q.—There are some poor people who might not be able to cultivate more than one acre.

A.—If you go below one acre, it is wrong. What I mean to say is that it will certainly wipe out a number of cultivators who now cultivate.

Q.—But you don't think that would be in any way an evil?

A.—I don't think that would be an evil.

Q.—What do you think will happen to those people who might be thrown out of cultivation?

A.—They might have some other profession and they can invest their money in Government Promissory Notes or in industries.

Q.—Do you think that these people can depend upon the interest from the Government Promissory Notes?

A.—Why, take the case of a man who has to give up half an acre, it will certainly fetch Rs. 500, and he can invest this money and get Rs. 30 interest.

Q.—You don't think the problem of unemployment will come in, if you stop fractionisation?

A.—No.

Dr. Paranjpye. Q.—In any case this will not give him a full day's work.

A.—No.

The Maharajadhiraja Bahadur of Burdwan. Q.—Have you got any idea as to the limit of fractionisation? What do you think, fractionisation below 1 acre or 2 acres should be stopped?

A.—In Madras, I will put one acre as the unit, beyond which there should be no fractionisation.

Dr. Paranjpye. Q.—If it is rice land?

A.—I see you are considering the dry crops also. Even in the rice lands I think one acre will be quite all right. I think it is fairly a good limit.

Sir Percy Thompson. Q.—What is your general view about export duties. Do you think they should be imposed on raw materials, such as jute, etc.?

A.—I would have no duty upon purely raw materials which are to be turned into finished articles in India. It must be encouraged. No doubt, there was a feeling when I was in the Fiscal Commission, that we must put an import duty upon raw materials, because the desire was that they should be kept in the country to compel the people to make here the finished articles.

Q.—What is that you are speaking of, export duty or import duty? You mean on goods that are produced in India and sent out to other countries, you would put an export duty?

A.—I am against it.

Q.—What is your opinion? You are in favour of export duty, that is, you would put a duty on the manufactured articles?

A.—Yes.

Q.—Is that not discouraging industry in this country?

A.—I don't think so. It is on a different footing when compared with the raw materials.

Dr. Paranjpye. Q.—You say you would put a duty on the manufactured articles made in India?

A.—Yes.

Q.—But you won't put it on the raw materials?

A.—I am anxious that the raw materials should be here, so that they may be made into finished articles. When I was in the Fiscal Commission, I had taken the view that as far as possible you must put an export duty upon the raw materials, so that you will compel the people to make the finished articles, but in certain cases you have not got facilities for manufacture; in the circumstances, I think it is desirable that they may be sent out, so that they may come here as the finished articles. I do not want that the producer should thereby be dammified. If you put a duty on the produce, the result is that he won't send it out, and there will be no encouragement to turn it into the finished articles.

Dr. Hyder. Q.—What inducement would there be to the manufacturer in this country?

A.—If you put a small export duty, I don't think that it would in any way affect an artisan for example.

Q.—You will be restricting his markets.

A.—To some extent, no doubt.

Q.—Take the case of Bombay mill-owners, if you put a small export duty on the export of cotton cloth or yarn, it will simply mean that the competition already existing with Japan, etc., will increase still more and thereby the Indian manufacturers will be losing their markets, due to your own action.

A.—In the instance you put, would not the consumer be benefited?

Q.—Therefore you are looking at it from the point of view of the consumer?

A.—Yes, I am only speaking from the consumer's point of view.

Q.—If you concentrate on the consumer, what will happen in the case of the producer?

A.—It is not a question of losing but a question of his not making a large profit.

Q.—Have you heard any instance of a country where the export duty is levied on the articles produced in their own countries?

A.—I think there is in France.

Sir Percy Thompson. Q.—I suggest it is impossible to have a monopoly of manufactured articles.

A.—I think the Government of the day does put duty on certain industries such as matches, etc.

Q.—No. That is a State industry. There is no duty if matches are exported.

A.—I think there is. I am not in a position to give you an instance. On the whole, in the case of cotton cloth, I am in favour of putting on the export duty, because it would retain the articles in this country and thus the consumers will get far cheaper cloth.

The Maharajadhiraja Bahadur of Burdwan. Q.—Don't you think that if you put an export duty on your manufacturer that instead of your people—Indians—buying the material which you are producing in your own country, they will buy the articles that are brought into this country which ought to be certainly cheaper? If you put on an export duty, your things won't go abroad, and your people will not consume them, and I think, whatever industry you have will soon die.

A.—No, it won't be like that. I have been fighting this question between the mill-owners and the non-mill-owners for a long time. Now, there is a great deal of competition between the hand-loom industry and the mill industry, the goods of the hand-loom weavers are always being run down by the mill-owners. The hand-loom weavers can certainly not cope with the Bombay mill-owners. According to my proposal, the hand-loom industry will revive. Now they are entirely shut out by the Bombay mill-owners.

Dr. Hyder. Q.—Therefore, you want to resuscitate the hand-loom industry, and want to penalise the large-scale manufacturers?

A.—It is not penalising.

Sir Percy Thompson. Q.—If you put an export duty on cotton cloth, it amounts to this that it forces the sale of cotton cloth in India.

A.—Yes.

Q.—This will enhance the competition between the mills and the hand-looms as you force more cloth into the market.

A.—Quite true. On the whole, you will find that you will have to encourage the hand-loom weavers to some extent.

Dr. Hyder. Q.—Let us suppose for one moment you have no export duty, now you put on an export duty and so force more severe competition between the mill-owners and hand-loom weavers, because you have more cloth.

A.—True, but it would make the consumer's lot much easier. No doubt, there will be severe competition between the hand-loom weaver and the mill-owner, but for the person who purchases the cloth it will be easier.

Sir Percy Thompson. Q.—I agree. It might result in the Indian consumer getting his cloth much cheaper.

A.—I think, on the whole, the consumer will be benefited greatly by such a tax.

Q.—You are in favour of excise duty on cotton?

A.—As it helped the hand-loom weaver, I suggested its retention once: but as it was levied to placate Manchester and retained for that purpose, I am against its continuation.

Mr. S. SUBBARAMA AYYAR, M.A., Dipl. Econ., Senior Lecturer in Economics, The Madras Christian College, was next examined.

Written memorandum of Mr. Subbarama Ayyar.

I wish to confine myself in this memorandum to the following points raised in the Questionnaire of the Taxation Committee:—

(I) What is the best method of ascertaining the national wealth and income of the population in India, and what is its importance in general and for ascertaining the incidence of taxation in particular?

(II) Are the present sources of non-tax revenue, *e.g.*, land revenue, including irrigation cess, mining royalty and forest revenue—collected in accordance with economic principles?

(III) What improvements can be effected in the case of our present sources of tax revenue, *viz.*, income-tax, taxes on commodities such as salt, alcohol, opium and hemp drugs, customs duties, and taxes on transactions, fees and licenses? Is it feasible in India to impose an excise duty on tobacco, inheritance or succession duties, a poll tax, a tax on entertainments, on business profits, capital stock of corporations, employers of labour, and transactions in capital and exchange—taxes which are not at present levied in India, but levied in other countries?

(IV) How far should the monopolized industrial production by the State such as the Railway, Posts and Telegraphs and other social monopolies be utilized as sources of taxation?

I.

The importance of well-organised public statistics has been recognised in Western countries, and thanks to the efforts of professors and students of universities, public associations like the Royal Statistical Society and the British Association, and the work of State Departments, the information we have of the economic and social life of the peoples of those countries is remarkable. But in India professors of the Western type are few and far between, and even the few, till recently, took little or no interest in social and economic investigation; public organizations are conspicuous by their absence; and the whole work, devolving entirely on the State, has been so far carried out in a most haphazard and unsatisfactory way. I agree with the criticism of the Committee (Annexure A) that the present statistics collected and published by the Government as regards agricultural production, industry and commerce are more or less unreliable, but the remedy is not to discontinue them but to extend the operations. For a long time to come, the State alone can adequately perform this duty, and with this end the Statistical Department must be strengthened somewhat on the lines of the Bombay Labour Office, which may seek the honorary assistance of professors and students of our universities as well as of the members of the public who take interest in such matters. The department concerned may proceed along the present lines of collecting the agricultural, industrial and commercial statistics, with a better trained staff and a more widespread organization keeping itself in close touch with the Collector of the District and the land revenue staff in the villages. Some sort of compulsory legislation might be necessary at an advanced stage of departmental organization.

The importance of reliable statistics as regards the wealth and income of population as well as of national welfare generally can hardly be overestimated. In these days when the old theory that the sole functions of the State are to ward off external attack, keep internal peace and enforce contract has been blown up and when there is an increasing demand for communal expenditure to be borne by the State for 'nation' building

services, the Government and the public must arm themselves with a *knowledge* of facts before it could proceed to allocate its available resources in the best possible manner.

The present estimate of national wealth and income that we have (Annexure B) based on the available statistics does not represent the whole truth and nothing but the truth. The several estimates in the list vary so widely from Rs. 16.5 to Rs. 116 per head per year, but at the same time they may be taken as a fair indication of the relative poverty of India. (To add to the list I may be permitted to refer to the result of an intensive inquiry into the income of a typical paddy area, comparatively fertile and prosperous, in a village in Cochin, on the West Coast. I found that the average annual income per family was Rs. 167 or taking 4 members per family it was about Rs. 42 per head. The average net income from agriculture was 46 per cent of the total, while industries including cooly labour, professional and commercial services represented the rest. Dr. Slater's estimate, therefore, of non-agricultural income as being about 50 per cent of that from agriculture is thus confirmed.)

The best method of estimating the national income in India is to take the value of the net agricultural produce based on the area and crop yields in the several provinces—it being understood that they are to be collected more reliably than at present—and so far as rural areas are concerned to take the non-agricultural income as a certain percentage of the agricultural as arrived at by intensive inquiries into the income of a few typical villages or wider areas in all the provinces. Cities may, on the whole, be taken separately, where provision might be made on the lines in Bombay to collect the statistics of production and income.

These estimates are useful not only for comparison with past estimates for the same country or contemporary estimate for other countries, but to note the general incidence of taxation as well. For, inequalities of income are not very great in India and the standard of life between the rich, middle and poor classes is not markedly dissimilar: the percentage of revenue per head on the income may be taken as fairly indicating the general pressure of taxation. Moreover, India is pre-eminently a country where the scale of expenditure of the State should be based on probable income rather than raise a revenue to meet a pre-determined and necessary expenditure.

The average income and the average incidence of taxation, like the average boots, do not fit in with the conditions of any one individual. For the purpose of noting the detailed incidence of taxation, the population of a province or contiguous economic area where conditions of life are not very dissimilar may be divided into the rich, middle and poor classes and out of a few representative family budgets in each class it may be possible to ascertain the amount that a particular class contributes to the national revenue.

II.—Non-tax Revenue.

Land Revenue.—The question whether land revenue is a rent or a tax is now one of purely academic interest. The definition of a tax or rent is well known to students of economics. A tax may be defined, slightly modifying the definition given by Prof. Bastable, as the compulsory contribution of the wealth of a person or body of persons for the services of the public powers, provided, as applied to production, it is apportioned to the net income that actually is earned. The latter qualification, however, is not strictly applicable to indirect taxes on commodities, the aim of which is avowedly to make the poor who cannot be touched by any direct tax to contribute to the public purse; but even in this case the capacity to pay is to some extent measured by the spending power of the individual. Rent in the economic sense as applied to agricultural land is the value of the difference in the produce of one field over another whose normal cost of cultivation including seeds is equal to the price ruling in the market. And rents are supposed to be apportioned not on what is actually earned but on what is supposed to be earned by an individual of normal ability. The Indian land revenue is a *tax* in so far as it is a compulsory contribution of the wealth of the landed proprietor for the services of the public powers, but it is not a tax in so far as it is not apportioned to the actual net income that is earned by the individual proprietor; in this it approximates rent as it avowedly seeks to collect a portion (50 per cent) of what an individual of normal ability is supposed to get as his net income in a particular district. At the same time the

amount collected even in the same district, not to speak of differences in different parts of India, does not take away as a rule the whole of the economic rent either in theory or in practice.

The main criticism of the land revenue *policy* of the Government of India—as distinguished from the *practice* of Settlement Officers, which is a different matter—is that it offends the most important canon of sound taxation, *viz.*, equality. Since the owner of one acre is called on to pay at the same rate as the owner of 1,000 acres, the land revenue assessment offends against the principle of equality of sacrifice, for this can be achieved only when the rich man contributes on a progressive and not merely on a proportionate scale. Secondly, the sacrifice of the necessaries involved in the case of the poor proprietor in paying up the revenue is infinitely greater or even such as cannot be borne, while the rich proprietor's sacrifice is merely of comforts or luxuries. The principle of exemption of the minimum subsistence level, as in the case of income-tax, is not recognised. Thirdly, the land revenue impairs the faculty or ability to pay of the cultivators especially the poor who, however, form the majority, since the collection of Government *kist* not only takes away a portion of what is necessary for their own subsistence, but also the capital for continuing the work in the fields. He tries to borrow with results with which we are all familiar.

The other points of criticism quoted by the Committee are not very serious. The canon of certainty, as laid down by Adam Smith, has reference not so much to permanence of charges, as to the time of payment, the manner of payment and the quantity to be paid which ought to be clear and plain to the contributor and to every other person. As regards official tyranny and extortion, I am inclined to think that it is somewhat less, though very serious, than in cases, *e.g.*, the income-tax, where the official visitation is an annual affair. As regards the time of payment, it is more convenient to the ryot as he has the produce with him, to pay the *kist* at the time of harvest, than at other times when his resource is to borrow, and thus can avoid falling a victim to the money-lender, though he loses somewhat as the price he secures at the time of harvest is less than at other times, he has the satisfaction that the money-lender is kept at bay. As regards the cost of collection (which is supposed to be 20 per cent of the revenue), it is useful to remember that the land revenue staff from the Collector downwards is expected to perform certain duties unconnected with the work of tax collection.

It has been proposed to exempt a minimum of income (based on the necessary level) from the operation of land revenue as in the case of income-tax. This is clearly impossible. Apart from the effect that this might have on further fractionization of holdings (a result mentioned by the Committee, but which I consider is not very serious), practically the whole land revenue will disappear in case the exemption is granted as the majority of ryots in every province are poor paying Rs. 20 or less. I cannot conceive of the Indian Government being able in the near or distant future to dispense with the large revenue that it gets out of land, for India is above everything else an agricultural country, and though in recent years the amount of land revenue bears a decreasing proportion to the total revenues of the country, it is by far, and is bound to be the most important. Historically, it is not wise to disturb a system which has come down to us from time immemorial. I am definitely of opinion, therefore, that the land revenue should be based not on the income of *persons* alone but on land. At the same time, I do not plead that the present method of assessment should continue. In temporarily-settled tracts it is well known that the Settlement Officers are guided in arriving at the so-called empirical rates by a series of statistics which may not be after all true. An enhancement is almost invariably the rule at the time of periodical resettlement and the explanation given is that the prices of agricultural produce have risen, and therefore the value of the net produce and the paying capacity of the ryot. Now, many people have exaggerated notions of the importance of a rise in price of our agricultural produce on the economic prosperity of our ryots. The Babington Smith's Committee Report admirably summarises the whole situation: "Out of 217 millions or 72 per cent of the population of India engaged in pasture or agriculture, 167 millions are cultivators of their own or rented land. Those who have surplus for sale (and these form the minority) would ordinarily benefit by a rise in the price of the commodities they produce, but even these—and perhaps their position is the most favourable—have

had to contend with the large increase in the price of imported articles. Moreover, if, as is often the case, the cultivator has received advances for his maintenance and for seed, repayable in grain after the harvest, any increase in the value of the grain repaid benefits the money-lender and not the cultivator. The agriculturist who has little surplus produce to sell and lives on what he produces would, in so far as he maintains himself on his produce, be unaffected by a rise in the price of food-stuffs and he would have only a small profit to set against the rise in the cost of the articles he has to buy. Farm-servants and field labourers, estimated at over 41 millions, would ordinarily stand to lose by a rise in prices, except in so far as their wages are payable in kind and not in money". Though the actual figures in the above may not be accurate, I have no doubt that a rise in the price of agricultural produce—more especially food-stuff—is not a criterion of economic prosperity for the vast majority of our ryots and is not a sign of increased capacity to pay land revenue. It is not true, however, to assert that the collection of land revenue is the sole factor which affects the economic prosperity of the ryot, but it is a fact that it considerably weakens the spending and saving capacity of a class which lives for the most part a hand-to-mouth existence. I am not concerned at present with the individual hardships incidental on the resettlement of a district due to the rough and ready methods employed by the subordinates of the Settlement Department in classifying the soil and applying the empirical rates. Suffice it to say, that the periodical resettlements upset the rural economy and withdraw more money to the treasury than the poor ryots can be legitimately called on to pay. It may also be noted that in areas where the pressure of the population on the soil is very heavy, and where the landlord class is in a position to rack-rent the tenants, the incidence of increased land revenue falls on the latter who are least able to bear it. Permanent settlement in the orthodox sense of binding the hands of the State for ever is not advisable in a growing State which must have freedom of movement and adjustment. But periodical resettlements must be dispensed with as far as possible, and the present rates must be continued without any disturbance, the State reserving the power, however, of re-imposing a rate of so many annas in the rupee as an additional cess whenever the finances of the country actually necessitate such an imposition. My contention is that land revenue should be made, as far as possible, a *non-elastic source of revenue*. At the same time, in order to make the agricultural classes pay whose shoulders are broad enough to bear the burden, the scheme of taxation of agricutural incomes is economically justifiable. The limit of exemption in this case may be fixed at a higher figure than for income-tax in view of the fact that there is already a tax on land.

Irrigation cess.—Then there is the question as to whether the State is not entitled to raising its revenue whenever the ryots have been benefited by the Government system of irrigation. My answer is in the affirmative. If the Government supply of water for purposes of irrigation is regarded as a purely commercial undertaking, the ideal principle will be to charge the bare cost of supplying the water including interest on capital invested, and even charge a commercial profit, if necessary, but the Government must look at the question from another point of view. Agricultural prosperity, indeed the whole economic prosperity of India, depends on a regular and plentiful supply of water and the State has a clear duty to spend a fair portion of the people's revenue on the improvement of land. At the same time it is impossible for the State to meet the entire charges of irrigation out of the ordinary revenue, but it may take a percentage share of the value of the increased produce of land brought about by irrigation facilities. In designing irrigation schemes the additional income that can be secured must of course be the guiding principle, except perhaps in famine areas where the State has to undertake such works as insurance against famines. The principles of charging by volume or selling the water by auction to the highest bidder may result either in the ryots refusing to take the proper quantity of water or in oppression and undue severity in collection due to the action of unscrupulous bidders.

When land newly brought under irrigation or guaranteed a supply of water for the first time increases largely in value, it is but right that the State should take a portion of the increase. As the collection of a lump sum is likely to prove hard to the small ryot who may perhaps have to sell or mortgage his land to pay it, a betterment tax spread over a series of years is preferable.

In the case of Government waste land newly brought under an irrigation scheme, it is better to grant security of tenure to the ryots, subject to assessment; the principle that "in old countries newly discovered natural resources of high values should not be allowed to become private property," is not strictly applicable to agricultural land, as the soil unassisted by human labour is not a natural resource of high value; the user must, therefore, be given more security than the Government possessor.

Forests and to a less extent mines might easily be made to contribute more to the revenues of the State.

III.—Tax Revenue.

1. *Income-tax.*

The principles and incidence of income-tax should be discussed with reference to (1) the rates, (2) the subsistence minimum that is to be exempted, (3) the distinction between incomes, i.e., whether earned or unearned, whether utilized to support a large or small family, and (4) whether the charges should be made on an annual or triennial basis.

(1) *Rates.*—I am of opinion that the present rates of income-tax in India are fairly heavy and should not be enhanced. The present high rates in Great Britain are exceptional, and there seems to be a general feeling in the country that they tend to impair the faculty of the State.

(2) *Subsistence minimum.*—The canon of equality of taxation lays down that the minimum of subsistence should be exempted from taxation. The present minimum of Rs. 2,000 is considered by some to be high. If the principle of minimum subsistence is accepted, there is no serious objection to reduce it to say, Rs. 1,000, as it is about the level of the cost of living for an average middle class family in Madras and perhaps of all India. I have heard that the administrative difficulities involved are great, if the lower rate of minimum is adoped, and the cost of collection amounts to about 20 per cent, but the net income of 80 per cent is not unwelcome.

(3) It is not necessary to discriminate between earned and unearned incomes for the following reasons: (1) The investors who live solely on their income from stocks and shares are few and negligible. (2) Such a distinction may tend to discourage investment. (3) In a country like England "the lower rate on earned income is said to be a concession to the fact that the people with earned incomes have to make a provision for the future by saving, which is not necessary in the case of a permanent income". (Robinson, Public Finance, page 54.) In India, on the other hand, the disparity in income between a powerful and numerous capitalist class and the poor proletariat does not exist, and the investors in the Indian industries of the present or the future are bound to be recruited from the upper middle classes who will look forward to the income as a means of saving as well as for actual personal expenditure.

Again, the distinction between the married and single, as we find in some Western countries, is not necessary in India, since everybody whether he earns or not is encumbered with a family. Although it is impossible to ascertain year after year the numbers to be supported by a given income in a family, I think a distinction is possible and necessary in the case of divided and undivided families. Without entering on the question of social reform, the feelings of a tax-payer must be respected, and if a person could prove that his is the only income liable to a tax in a "joint family" he might be charged at a lower rate.

(4) As regards the period, I think it is possible to make a distinction. Salaries of officials, both of Government and private bodies and all others whose income is comparatively steady, might be charged on an annual basis; in the case of business men, traders, lawyers, etc., the assessment may well be on a three years' average, as violent fluctuations in their income are not unknown.

Lastly, agricultural incomes may well be made to contribute to the national revenues. The minimum of exemption may be put at a higher figure, say, Rs. 3,000. In calculating the income in money, the price of the income in kind should be fixed for a series of years for the purpose of Government assessment. The distinction between the incomes of

the absentee landlord or the money-lender and the farmer does not seem to be necessary as the majority of those who are likely to be taxed on this score are either absentee landlords or money-lenders; I think that the farmer class is not to any very great extent likely to be affected by the tax.

2. Taxes on commodities. Excise duties.

The excise duties levied in India at present are on salt, alcohol, opium and hemp drugs, and on mill-made cotton cloth. Out of the long list of commodities suggested in question No. 49, there does not appear to be any other that is suited to conditions in India except perhaps the excise on tobacco.

As regards the general nature of an indirect tax, I agree that (1) it should be levied on as few articles as possible and the selected articles should be such as to touch all classes and reach in a moderate degree those who do not contribute to direct taxation; (2) that if the imposition of an excise duty leads to the reduction of an undesirable consumption it can be so utilised; and (3) that in a country, as for example India, where three-fourths of the population consume no luxuries and the majority can only be taxed through necessaries, there is no real hardship in such a tax. It is, however, not possible in India to adopt a graduated system of indirect taxation which will fall with heavier impact on the consumption of the wealthier classes, because there is no sharp distinction in the standard of life between the rich, middle and poor classes in this country.

Salt tax.—I do not agree with the criticism that is often levelled against the salt tax that it is fleecing the poor in India. It is a fit object of taxation; since it is an article of universal consumption, a tax on which will enable the poorest to contribute something towards the cost of the State. I agree that "it would be difficult to devise any other duty of general incidence less oppressive and less open to evasion than the salt tax". The rate of duty, however, should be kept as low as possible since any increase in the retail price of salt affects the pockets of the poorest classes who are, as a rule, day to day purchasers, with fourfold effect. It will be an advantage, I think, to enforce the sale of salt by weight, for the method of sale by measure is likely to be abused, as for example, when big crystals leave intervening spaces in the measure.

As regards Government control and production, if it were shown that a cheaper and purer article could be produced by substituting large scale manufacture for production by a very large number of petty holdings, I think it is a proper ground for a gradual extension of the Government monopoly. If that is not possible, the present system is better from the point of view of the consumer as well as of Government revenue, as competition among private parties is likely to bring down price. Again, if subordinates in charge of Government depots deal honestly, the opening of such depots is likely to steady retail prices.

As regards the supply of salt to Bengal which now practically imports it from abroad, it is worth while to consider schemes for reducing cost of transport, through rail or sea, by subsidy, if necessary, so that other areas in India might capture the home market. A mere protective duty is likely to raise the price to the Bengal consumer without corresponding advantages to other parts of India. The adoption of a process of denaturation of salt with a view to its issue free of duty for use in agriculture and industries is advisable.

Liquors and Drugs.—The State policy towards alcoholic drink in India has two aims—(1) *fiscal*, i.e., to make it an item of indirect taxation and a source of income to the State, and (2) *moral* or social, to bring it under strict control, and by applying the highest possible rate to raise the price to such an extent as to diminish the quantity consumed.

As a source of indirect taxation, an excise duty on alcoholic liquors is well known in other countries. In most European countries, however, alcohol is an article of general consumption among all classes and, therefore, affords a means of obtaining from the masses a large contribution to the public purse, but in India the regular consumption is limited to certain classes only, to a minority, while the taxes on salt, cloth and kerosene affect the masses as a whole. But the State has received large amounts of revenue from this source, while the vendors have made much more profits for which statistics are not available.

The State policy is sometimes summed up in the formula: "Maximum revenue with minimum consumption". The economic fallacy behind it is that drink, when it becomes a habit, as it does among the classes addicted to it, is an article of comparatively inelastic demand and, therefore, a rise in price will not send down the quantity demanded. The truth of this is strikingly illustrated in the following table:—

Statistics of Excise Revenue, etc., from Drink, Madras Presidency.

Year.	Number of shops.	Consumption in proof gallons in thousands.	Consumption per 100 of population (proof gallons).	Revenue in lakhs of rupees.	Incidence of revenue per proof gallon including rentals in rupees.
1911–12	8,724	1,628	4·07	126·44	7·71
1912–13	8,324	1,774	4·43	141·50	7·92
1913–14	7,908	1,782	4·45	156·85	8·73
1914–15	7,649	1,647	4·10	150·79	9·05
1915–16	7,076	1,491	3·72	139·61	9·21
1916–17	6,871	1,644	4·10	152·28	9·08
1917–18	6,619	1,648	4·11	162·71	9·60
1918–19	6,352	1,672	4·17	188·06	11·14
1919–20	6,046	1,989	4·95	216·26	11·13
1920–21	6,008	1,728	4·10	228·17	13·55

It is clear from the above table that though the numbers of shops have been steadily reduced during the last decade, the total consumption and the consumption per 100 of the population have remained nearly the same, though the total revenue and incidence per gallon have nearly doubled themselves. To say that the average consumption would have increased, instead of remaining stationary as at present, but for the restrictive measures adopted by Government, is to misunderstand the position, for the quantity drunk and the numbers that drink are not regulated by the *price* but by the *habit*. Moreover, this duty presses very heavily on the poor classes who are least able to bear it.

But is alcoholic drink such an evil that its consumption should be checked by the State? Opinion seems to be divided on the subject. There is a complaint that the intellectual classes in India (teetotalers themselves), who take such a prominent part in temperance reform, are out of touch with the needs of the labouring classes to whom, after a hard day's work, alcoholic drink is a wholesome necessity. Expert medical opinion is not unanimous. Though the majority seems to hold that alcoholic drink is not only not necessary, but positively injurious to the human system, a few are of the opinion that, if taken in moderation, it is an excellent restorer and nerve-builder. One would think, however, that the results of drunkenness must form the final test. Drink in moderation is an impossiblity, especially for the masses whose mental capacity and will-power are not at all sufficient to discriminate between moderate and excessive drinking. Excessive drink ruins the self-respect and impairs the efficiency of the drinker as well as that of the future generation.

The State must therefore aim at total prohibition and make a beginning by pushing forward vigorously and sincerely the scheme of local option. To make good the loss, I agree with Dr. Mathai's proposal to levy a super-tax on land revenue at a percentage varying from year to year to be assessed on landholders paying revenue, say, of Rs. 100 and over (Rs. 50 is proposed by Dr. Mathai) at graduated rates; a provincial surcharge of 10 per cent (20 per cent is Dr. Mathai's suggestion) on income-tax is also admissibe. A small increase in the salt duty or the duty on cloth, or kerosene is possible. The economic merit of the salt duty is that its incidence would be spread equally among the poor, while the present excise on drink presses very heavily on a small section of it. A small tree-tax on toddy-yielding trees like the cocoanut and palmyra as well as on some suitable fruit trees might be imposed. If the State refuses to make money by trading on the vices of a section of the population, the moral effect will be so great that the essential law-abiding instinct of the Indian may be relied on to do the rest.

Tobacco.—An excise duty on tobacco may well take the place of that on alcohol. In India, however, tobacco is not, from a fiscal point of view, an object of taxation more desirable than salt, because unlike in other countries it is not an object of universal consumption. But it is fairly universally cultivated, and is, moreover, an object of luxury and the amount consumed by any one person is never very large.

To tax it at the source in the shape of an acreage duty on cultivation may scare away producers; and it is not advisable to discriminate between the crops. It is not also possible or necessary to make it a State monopoly in production.

The tax on tobacco is intended to fall on the consumer and the duty therefore should be imposed at a stage when there is the least chance of its being shifted to anybody else. Tobacco is consumed either as raw, *e.g.*, for chewing or as manufactured, *e.g.*, as cigars, cigarettes, *beedies* and snuff. The best method seems to be to regulate the *sale* of raw tobacco when it is brought to the market by the prohibition of wholesale and retail sale except under a license. The Government may either give contract for monopoly of retail vend for fixed areas or limit the number of licenses and sell them by auction; an efficient method on these lines is working satisfactorily in the Indian State of Cochin.

The main difficulty will arise in the case of exports. The figures indicate a steady increase in recent years in the quantity of tobacco exported from India. No doubt the Indian demand for tobacco is great and increasing, but to the best of my knowledge its demand in Europe is greater, where it is universally consumed in one form or other. The imposition of an excise duty may raise the price to the foreign consignee and by reducing Indian exports check the production in India. To allow a rebate on the exports alone is out of the question. The Government should, I think, be prepared to meet this contingency, unless it is possible to allow a rebate on purchase for *bona fide* exports; if this is done, the benefits should be extended equally to large-scale producers of tobacco products in India. The products of such factories may then be taxed at an *ad valorem* or specific rate duly countervailed by an import duty on the same or similar materials. A fixed license fee may be levied from the small scale manufacturers of *beedies*, snuff, etc., The possibility of a small revenue export duty on tobacco (raw and manufactured) may also be explored.

Customs duties.—For revenue purposes it is better to impose import duties on all articles rather than a few, since it is comparatively easy to collect them at the ports without any large addition to the staff. A revenue duty should also be at or below the rate which yields the greatest revenue obtainable.

It is necessary to make a classification of commodities and rates in the following order:—(1) Goods, such as machinery, used for productive enterprises charged at the lowest rate; (2) consumption goods in demand among the rich classes only charged at the highest rate; (3) consumption goods in demand among the middle classes chiefly at medium rates; (4) consumption goods in demand among all classes but chiefly the poor, charged at the lowest rate. If the article is one having a comparatively inelastic demand, it can stand a higher rate than the one less inelastic.

The possibilities of imposing export duties on more commodities have to be explored. The demand for Indian raw materials and food-stuffs is so great that, provided the rates are not high, there need be no fear that the quantity of our exports will fall off.

As regards the form of duties, one can only say that both the *ad valorem* and specific duties as well as the system of tariff valuations should be retained and applied with reference to the nature of each article.

Taxes on transactions, etc.—Another important source of revenue in India is the tax on transactions such as free distribution of property, inheritance, legal and commercial transactions. Stamp duties on all these are legitimate and cannot be regarded, so far as India is concerned, as acting "in restraint of trade or other forms of presumable personal and social utility" provided the duties are not very high. All taxes act in restraint of presumable personal utility, but as regards the restraint on social utility, it may be remarked that in India most of the transactions in property or money do not *prima facie* result in an addition to the utility of the parties. For example, most people borrow money to meet

a necessary expenditure, and even if the stamp duty puts a restraint on the act, which, however, it does not at present, there is no serious objection as it may induce the borrower to put off, if possible, the taking of a loan. Again, in the case of landed property, most transactions are among the moneyed middle classes who speculate on land purchase or mortgage on grounds other than for getting the largest return from the productive investment in land and thus adding to the social utility.

Taxes on judicial proceedings in the shape of stamps and fees should, on the other hand, be so limited as just to pay for the cost of the courts. Indeed the present high rate has been defended by some on the ground that it will act as a deterrent to the average Indian who is represented as being litigious in spirit. I am convinced, however, that resort to a court of law is not in the generality of cases a pleasure but a necessity. What cannot be settled among parties by appeal to reason or good faith is asked to be decided by an officer of the State. Moreover, many points in connection with State-made laws—the existence of which is a new feature of the British judicial administration—are so comprehensive or incomprehensive that the average man who is affected by them must be pardoned if he resorts to a competent court of law for their interpretation. It is not benefit that the State is rendering by administering justice or enforcing the fulfilment of contract, but one of its fundamental functions. Moreover, resort to a court of law does not indicate any ability to pay on the part of the litigant.

The case of registration fees is slightly different. Though here also the State is called on to render a service to the party from whom it can legitimately demand only the bare cost, the parties can afford to pay a higher sum as the act of registration, unlike the proceedings in a court of law is simple and does not demand the expert assistance of lawyers and others who collect such an enormous toll from the litigant population.

Entertainments in India are not amusements in the conventional sense, but in many cases are forms of dissemination of Hindu culture and folklore; their educative effect is really great in areas where the inhabitants do not know how to read and write. A central or provincial tax is likely to prove a tax on knowledge and culture. There is no objection, however, in utilizing them judiciously as a source of local taxation in our cities.

Inheritance or succession duties.—In the event of new sources of taxation being required to replace old ones that may be condemned, duties on inheritance or succession may be considered. Since the bulk of property in India that will change hands at death is likely to be land, there is an additional argument in its favour, if my proposal for doing away with periodical reassessment of land is accepted, viz., that at the end of each generation the capital value of land will be subjected to an additional taxation. As the landed property does not change hands in this way in the case of the Hindu joint family, either a periodical levy might be attempted or the tax might be applied to the share of the deceased. A periodical levy is to be preferred in some respects, since the principle of the capital levy of land is thus extended to the joint family as well, but the regularity of collection, say, once in five or ten years, might discourage saving or lead to the break-up of such properties. Economically, however, something is to be said in favour of discouraging concentration of land in single hands. Smaller properties must certainly be exempted and the value might tentatively be put at Rs. 5,000. The principle of graduation based on the size of the estate left is superior from the point of view of the exchequer and can be tried in the case of joint or undivided families. But in other cases the graduation based on the degree of relationship of those who inherit the property to testator and with the amount inherited by each individual heir seems to be more equitable, since allowance may be made in the latter case to the size of the family. As regards succession the rates should be lower than in the case of inheritance through testament or lack of direct heirs.

Taxes on inheritance ought to be levied at unchanging rates as far as possible in order to secure equality in the distribution of their burden. Difficulties do not seem to be great in India to make the Provincial Governments responsible for their administration, because in most parts of India inheritance or succession does not pass beyond district or at most provincial limits; in cases where they do, it may be worth while to make some arrangement between the provinces affected. The advantage is that the existing land revenue staff may be utilized for its collection.

As regard rates, a flat rate, as in England, is not advisable, but the French model based on the numbers of males in the family seems to be better, as the latter takes into account the size of the family.

A chief administrative difficulty will be for the State to ascertain the exact value of the property left. The principal forms of wealth in rural India are (1) land and buildings, (2) jewellery and vessels for family use, (3) hoards, and (4) money transactions. The first and the last are comparatively easily assessable, but the value of the others is not so easy to determine. Open declaration by the parties seems to be the only remedy. Some evasion and fraud are inevitable, but in this defect these duties do not stand alone.

IV.

Utility services and taxation.—Monopolized industrial production by the State may take two forms—(1) Production of ordinary articles such as salt, matches, tobacco, etc., which can be effectively produced under competitive conditions, but which are monopolized by the State for the purpose of collecting taxation; (2) direct management or control of social monopolies such as the utility services like the Railway, the Posts and Telegraphs, Telephones, etc., which are from their very nature incapable of being worked under competition, or too dangerous to be left in the hands of private monopolies.

In the first case the aim is clearly to raise taxes in the easiest and cheapest possible way, and, the State should, therefore, fix a price which will not only bring a bare return on the capital invested, but something more. The articles selected should be such that the State is more or less an effectively producing agent; otherwise the loss to the consumer will have to be measured more than by the amount of the tax. The aim should not be to secure the maximum monopoly net revenue as in the case of private monopolists, but the recognised canons of taxation should be borne in mind, viz., that it should not fall with undue severity or regressively on the poor, and that it should not impair the faculty of the tax-payer. Besides, salt and alcohol, explosives and playing cards might be treated in this way.

In the case of the public utility services like the Railway, the aim should be to fix the rates in such a way that they cover the cost of capital expenditure. There is, however, no objection in utilizing them as sources of taxation, when necessary, provided the rates are kept as low as possible, lest a high rate should tend to diminish the demand for the services, and provided there is no considerable reduction in the consumers' surplus on account of the rise in price. It is necessary to emphasize that in the management of such enterprises the working expenses should be kept as low as possible, consistent with economy and convenience in order that there may be a wider margin for taxation in case of need.

Conclusion.

In this memorandum I have merely made an attempt to throw the light of economic reasoning on some items of taxation in India, present and prospective. My conclusions may be summarized as follows:—

(1) While admitting that it is impossible to exempt the minimum subsistence level in the case of land revenue, and that the rates should be based not on the income of persons alone but on land, I plead that the periodical reassessment on the present lines should cease, the State reserving the power of reimposing rate of so many annas in the rupee as an additional cess whenever the finances of the country actually necessitate such an imposition.

(2) The taxation of agricultural incomes is economically justifiable.

(3) In the case of irrigation cess, the State may take a percentage share of the value of the increased produce of land brought about by irrigation facilities, and when land newly brought under irrigation increases largely in value, the State may take a portion of the increase by means of a betterment tax spread over a series of years.

(4) In the case of income-tax, the present rates are fairly heavy, but the minimum of exemption may be reduced to Rs. 1,000.

(5) An excise duty on salt is economically sound and its present incidence in India cannot be regarded as oppressive.

(6) The State should be prepared to forego the drink revenue and aim at prohibition.

(7) An excise duty on tobacco may well take the place of that on alcohol.

(8) Customs duties should be imposed on all articles rather than a few, with due discrimination in the rates. There is greater scope for the imposition of revenue export duties than are at present levied in India.

(9) The present taxes on transactions may be continued except the stamp duties on judicial proceedings which should be so limited as just to pay for the cost of the courts.

(10) Entertainments are not to be taxed.

(11) An inheritance or succession duty is permissible.

(12) The utility services, like the Railway, may be utilized judiciously as sources of taxation.

Whatever may be the financial effects of these proposals which are, however, equally important for the statesman to consider, the economist can only point out that (1) the sources of taxation in India are few, and (2) no considerable amount can be raised under any of the items without impairing the efficiency or the faculty of the vast majority of the population in India who are poor, and that therefore, (1) the expenses of the State, civil and military, should be kept down rigorously, and (2) the several functions that are now being centralized and performed by the officials of the State should be handed over to village bodies or communal organizations wherever they exist, and where they do not exist it is the clear duty of the public and the Government to infuse sufficient public spirit into the minds of the rural population so as to enable them to discharge such functions with thoroughness, honesty and economy.

Mr. Subbarama Ayyar gave oral evidence as follows :—

Dr. Hyder. Q.—I do not understand your statement that "the Indian land revenue is a tax in so far as it is a compulsory contribution of the wealth of the landed proprietor for the service of the public powers, but it is not a tax in so far as it is not apportioned to the actual net income that is earned by the individual proprietor." How do you make that out? Is not land revenue really a certain portion of the net income from land? Government, as the owner of the property, are taking a portion of the income. What is the precise point of the distinction?

A.—The main distinction is between land revenue and income-tax. In the case of income-tax, you ascertain what exactly is the income that a person has earned and you proceed to assess him on that basis. But in the case of land revenue, without ascertaining what he actually earns or has earned, you simply have a rough idea of what he is likely to earn and impose a tax on that basis.

The President. Q.—Don't you consider that, inasmuch as land is the source of production, a person to whose charge it is entrusted has a duty to the rest?

A.—That is another question altogether. For instance, in one year he may be quite capable and may have done his best, but nature may have failed him.

Q.—Is not the basis of land revenue just the same in the most advanced countries, viz., that the person in charge of the land has a duty to produce?

A.—The idea is something different. This distinction between a tax and rent is made by Prof. Marshall.

Dr. Hyder. Q.—What is the distinction made by Prof. Marshall?

A.—In the case of a tax, it is based on the income actually earned, but in the case of rent, on what may be earned by an individual of normal ability.

Q.—You do not believe in compelling people to cultivate by taxation?

A.—No.

Q.—Further on in your statement you say that land revenue impairs the faculty or ability to pay of the cultivators, especially the poor, who, however, form the majority, since the collection of the Government *kist* not only takes away a portion of what is necessary for their own subsistence, but also the capital for continuing the work in the fields. I put it to you whether all that is left takes the form of capital. Why do you think that all goes into the land?

A.—I do not say *all* goes into the land. To a certain extent, the collection of land revenue impairs efficiency in that respect also. Most of our people are poor, and when the amount has got to be paid out of the income from land, there is so much the less available for purchasing cattle, seeds, etc. As a matter of fact, the poor ryots go and borrow money for purchasing cattle.

Q.—Aren't the people also litigant in spirit?

A.—I do not suppose so. I have not come across a large number of people who go to the law courts for the mere fun of it.

Q.—I thought they were.

A.—No.

Q.—Your point is that if there were no land revenue, the rents would remain to the cultivators, and they might spend it on improving the soil?

A.—Yes: some people are extravagant, but to brand the whole lot of cultivators as extravagant is going too far.

Q.—What improvements could they effect on the land?

A.—I was not referring to permanent improvements, but was simply thinking of running expenses. Permanent improvements are beyond the capacity of most of our ryots: the bigger landlords must take part in that.

Q.—What are running expenses?

A.—Purchasing cattle and seeds, digging wells, etc.

The President. Q.—Don't the cultivators in Madras spend a very large sum of money in permanent improvements every year, which they borrow from Government under the Agriculturists' Loans Act?

A.—I am referring to the poorer classes. There are middle class landowners who certainly try to invest in digging wells and all that, but the major portion of the amount that is borrowed by cultivators is for running expenses.

Q.—At the top of page 82 in your written statement, you say: "I have no doubt that a rise in the price of agricultural produce—more especially food-stuff—is not a criterion of economic prosperity for the vast majority of our ryots." Is this because the cultivator consumes much imported goods?

A.—Not only imported goods, but his own goods. Take paddy, for instance. The price of paddy may have gone up, but he must have the same amount of food as previously.

Q.—Still there must be a surplus.

A.—He is not going to sell it.

Sir Percy Thompson. Q.—Your argument is that he consumes all he produces?

A.—At the same time, he has to sell, because he has to meet his other expenses, e.g., on matches, cloth, kerosene, etc., and he has also to pay the Government *kist*.

Dr. Hyder. Q.—Do you mean to say that he does not get enough to maintain himself and his family?

A.—Yes. He may have to get it in other ways, e.g., by way of cooly labour.

Q.—Cooly labour is not agricultural labour.

A.—Transport and various other kinds of cooly labour.

The President. Q.—Would you prefer fixation of the existing revenue subject to the addition of an emergency cess, or a tax on agricultural incomes?

A.—I would prefer an emergency cess.

Q.—Is income-tax on agricultural incomes economically justifiable?

A.—Yes.

Q.—Can you do anything to equalise the incidence of land revenue in the different districts, or would you standardise the present inequalities?

A.—In some cases, the incidence is pretty heavy even as it is. In some cases it is not. Much depends on the history of a particular district. I do not suppose it is possible or necessary to have the same incidence throughout India.

Q.—Is it not desirable to have the same incidence?

A.—It may be desirable, but in that case new re-arrangements of the economic areas might be necessary. Some districts may be more fertile than others.

Q.—Would you agree that there would be very great difference in assessment between a district settled 30 years ago and one settled last year?

A.—Yes.

Q.—There is no justification for that difference; it simply results from the fact that different commutation rates prevailed in those years. It seems to me that your scheme involves a perpetuation of that difference to all eternity.

A.—To start with, if you approve of the plan, we can have more or less a uniform incidence, and begin work on a clean slate, but apart from doing away with glaring inequalities between districts or provinces, I do not think it is necessary to do that.

Dr. Hyder. Q.—As regards irrigation, I understand you to say that the ideal system would be only to charge as much as it costs Government. On the other hand, you say that it is the duty of Government to look at the question from another point of view. I suppose you mean that Government should develop irrigation schemes?

A.—Yes.

Q.—So that, your idea is that Government should run these concerns even if they cannot pay?

A.—Not necessarily. The aim must be to get the cost, but in some cases it may not be possible.

Q.—Supposing there are two schemes—one which can pay the cost, and another which cannot. You say that in the first case Government should only get what it costs them. But if the cultivator benefits much more, don't you think that Government should charge what the cultivators can afford to pay?

A.—Yes, I have mentioned that in my written statement.

Q.—As regards irrigation rates, would you have uniform rates for each tract in the Presidency or varying rates?

A.—I think we should have varying rates, taking into account the particular circumstances of districts. I think that will be more equitable than having a uniform rate.

Q.—When the irrigation costs more, you will have more, and when it costs less, you will have less.

A.—I think there is no objection in that. The business of the State is to tax in such a way as to get out of the people what they most conveniently can pay.

Q.—You would be benefiting the cultivator in the district at the expense of the general tax-payer. The man in the favourably situated districts might ask why he should be charged more, while the other man is paying less.

A.—In all these matters, you must more or less take the country as a whole. I do not think it is right to take particular districts. In imposing your rate in a particular district which benefits greater than another, certainly the ryot's share of the benefit is increased, and hence his capacity is increased. He is called upon to pay only a certain proportion of the benefits he has received. So he cannot complain.

The President. Q.—You say that forests and, to a less extent, mines might easily be made to contribute more to the revenues of the State. Have you any scheme in your mind?

A.—No. I have not made any special study of it.

Sir Percy Thompson. Q.—You are satisfied with the income-tax system in India with two exceptions?

A.—Yes.

Q.—First of all, you think that agricultural incomes might be taxed?

A.—Yes.

Q.—Secondly, you think that on business profits the assessment may well be on a three years' average?

A.—Yes.

Q.—On what grounds do you justify a tax on agricultural incomes?

A.—On ability to pay for the needs of the State.

Q.—When the landlords pay a tax of something like 50 per cent of their income by way of land revenue, is not this a tall order?

A.—I do not think so. The incidence of land revenue generally falls on the ryots or on the tenants, and the agricultural income of large owners is, I think, net.

Q.—If you increase the land revenue, does the rent also increase?

A.—That is what is taking place on the West Coast. When a tenant enters into a contract with a big landholder, he undertakes to pay the present land revenue as well as the future revenue which the State might impose, together with any kind of cess that might be levied on the land.

Q.—That is exceptional.

A.—Wherever there is pressure of the population on the soil, you may expect the shifting of the revenue on to the tenant.

Q.—In some provinces there is tenancy legislation and the landlord cannot increase the rent.

A.—That may be an exception.

Q.—In that case you would not say that the landlord is always able to shift the burden of land revenue on to the tenant.

A.—Even in that case, you have to look at it from the point of view of the State. If the State really requires more money and if the landowners are capable of paying it, I do not think they can raise any great objection.

Q.—Suppose the landowners pay a land revenue of something like 40 per cent of their income. If the State wants more money, should not the State really go to the business men and make them pay 40 per cent also?

A.—There is a limit that I have put through. The major portion of the smaller landowners will be exempt from that tax. My whole point is that the incidence of land revenue falls in such a way that the poorest classes are bearing a disproportionate share of the whole burden. That must be remedied. There are certain people who receive a larger amount from the land and who can afford to pay a tax.

Dr. Hyder. Q.—Have you many such people in the Presidency?

A.—That is a matter for the administrators to work out.

Sir Percy Thompson. Q.—It comes to this—that you want the land revenue system graduated like income-tax.

A.—Yes.

Q.—Don't you think the result of that will be to reduce the yield of land revenue enormously? You would exempt the smaller ryots who run to millions?

A.—I do not want the smaller ryots to be exempted. Re-assessments should be discontinued.

Q.—You made the statement that the small ryot could not afford to pay and that he must be relieved and money found elsewhere.

A.—No. What I said was that the increased needs of the State or the increased price of agricultural produce should not be made an excuse for increasing the burden of land revenue on the poor ryot, but it should fall on those whose shoulders are broad enough to bear it, viz., big zamindars. All ryots will continue to pay land revenue more or less on a permanent basis, irrespective of the size of their holdings or the amount of their incomes.

Dr. Hyder. Q.—You said that there were large units of zamindars, but not large units of operation. Your cultivators have holdings varying from 10 to 50 acres. You made a statement that the tenant undertakes

to pay land revenue and any enhancement in cesses. When you increase the land revenue on landlords, the burden goes on to the tenants. How do you meet that?

A.—There is that possibility, but you would tax them only after you ask them to declare their incomes, so that they may not have the tendency, especially if the tax is not heavy, to pass it on. If the pressure is very great, he will try to distribute it.

Q.—You said that there was no provision to protect the tenants.

A.—Only in ryotwari areas.

Sir Percy Thompson. Q.—Isn't there this difficulty about the three years' average: that a man who made a loss throughout the year may have to pay income-tax on profits made three years ago?

A.—I think I said that the rates should be settled on the basis of the income earned, e.g., in the second year it will be a less amount, in the first year more. The man will then get some relief in the income-tax.

Q.—Suppose a man made Rs. 1,00,000 in year 1, Rs. 50,000 in year 2 and nothing in year 3, but lost Rs. 50,000 in year 4. In year 3, he will be charged on the average of the total of Rs. 1,00,000, Rs. 50,000 and no rupees. In year 4, when he actually made a loss, would it not be difficult for him to pay income-tax?

A.—I think some provision should be made for that.

Dr. Paranjpye. Q.—If he has to make provision for that, would it not be better to pay income-tax immediately after earning the income?

A.—I merely put it in that way, so that firms who make no profit in the course of three years may get some relief. I am not very keen on it.

Sir Percy Thompson. Q.—In England they had the three years' average system: in response to pressure brought by the commercial community, the Royal Commission that sat in 1919 reported in favour of the adoption of the previous year's income. Do you agree to that?

A.—Yes.

The President. Q.—With regard to excise you say: "The State policy is sometimes summed up in the formula: 'Maximum revenue with minimum consumption'. The economic fallacy behind it is that drink, when it becomes a habit, as it does among the classes addicted to it, is an article of comparatively inelastic demand"; and you give a table of statistics. Have you brought your table up to date?

A.—That was what was available to me.

Q.—From the latest figures we have got, I find that the number of shops has been reduced from 6,008 to 5,917; the consumption in thousands of proof-gallons which stood in your table at 1,728 has since been reduced to 1,528. Is there not a good deal of difference?

A.—No; I don't think there is. When you reduce the number of shops, you are aiming at prohibition; there are less facilities provided.

Dr. Hyder. Q.—Is it your view that the demand for liquor is absolutely inelastic?

A.—Yes; more or less.

Q.—Whatever changes may take place in prices, they can have no effect on the quantity consumed. Is that your view?

A.—It will depend on the individuals. But as a rule, that is my opinion. I just enquired from one or two persons who are addicted to drink, and they say that nothing will stop their drink if the shop is there.

The President. Q.—If the shop is not there?

A.—He will not drink.

Q.—He will make drink for himself if he has got the habit.

A.—But the poorer classes may not have the facilities.

Q.—Has it not been said that everybody has got a beer tap in his backyard?

A.—That may be. But generally the owner is an agriculturist and he may not permit that. Because most of the people who drink belong to the depressed classes.

Dr. Hyder. Q.—Do you think that the owner will keep watch over every tree?

A.—He will take great care to see that it is not done. Of course, there may be difficulty in the case of the present generation. I do not deny that. But once the State declares for total prohibition, I think we can depend on future success.

The President. Q.—May I invite your attention to the fact that the average number of cases of illicit distillation for the period of 5 years ending 1921 was 1,435 and for 1922-23 it was 2,001 as a result of restriction of facilities and increase of prices, and it has been declared in many of the provinces that illicit production is out of control?

A.—As I just now said, it may be a difficult problem to deal with the present generation. I do not deny that. But my whole point is that if you want total prohibition at all—of course that is quite a different question apart from the question of taxation—certainly, the only means of doing it is to aim at total prohibition. That is, if you want to reduce the drink habit, you must have total prohibition as your goal, though it cannot be brought about all of a sudden.

Q.—But can you say so as a result of the study of the effects produced in other countries?

A.—So is the case with regard to other laws. There is law against theft and there are so many laws against various other bad habits.

Q.—You regard theft as a habit?

A.—It is a wrong against the community—socially bad or anti-social.

Q.—Consumption of an article of which you disapprove is a habit which you put on a par with theft?

A.—Of course, there are differences.

Q.—May I ask you whether you are speaking as a result of the study of facts in other countries?

A.—I fully admit that in the case of America, for instance, there may be illicit distillation. You cannot change the habit all of a sudden. But you can reduce it bit by bit. Now what happens is that even children of two or three years are taken into the liquor shops and toddy is forced down their throats.

Dr. Hyder. Q.—Against their will?

A.—Children do not know what it is.

The President. Q.—Is it your personal observation? You have seen toddy being forced down the throats of children in the shops?

A.—Yes.

Q.—Did you prosecute the people concerned?

A.—No.

Q.—You say it can be reduced bit by bit. From the reports we find that for the quinquennium ending 1923 there has been in the Central Provinces a reduction of 58 per cent; in the United Provinces 59; the Punjab 58; Bombay 29; Assam 24; Bengal 18 and Madras 9. Is that not little by little? Is it not what you want?

A.—But there is one thing. Looking at it from the point of view of taxation only, quite apart from the general question of drunkenness, it falls very heavily upon the poorer classes of the population who are the least able to bear it. There may be a reduction in the quantity of drink. If you aim at total prohibition the revenue also must go.

Q.—But the consumption would continue, though the revenue goes.

A.—The effect of law on persons might be such that you can effect some improvement.

Q.—Would you make good the loss of revenue by levying a super-tax on land revenue and a provincial surcharge on income-tax?

A.—Yes.

Q.—Supposing this is done as a result of voting: would you be prepared to pay any additional taxation yourself for the enforcement of your opinion on your poorer brother?

A.—I think I ought to. I do not see any reason why I should not.

Q.—But you have proposed a super-tax. Will it fall on the community who are most anxious to bring in prohibition?

A.—The tax on tobacco, for instance, will fall on the poorest class as well.

Q.—You think the ryot would be ready to bear the burden of a super-tax on land revenue. It would mean almost double the land revenue.

A.—But I have put in a limit—those who pay a *kist* of Rs. 100 and above.

Q.—Have you studied the number of people who pay a *kist* of Rs. 100?

A.—I think 80 per cent will not come up to that limit. So the amount would be very small, no doubt.

Q.—So what would you do for the rest?

A.—For the rest I can only suggest increase in other items, both direct and indirect taxes.

Q.—May we go to tobacco? You propose an excise and you say, "The best method seems to be to regulate the sale of raw tobacco when it is brought to the market by the prohibition of wholesale and retail sale except under a license." Do you think it will be practicable?

A.—I think it will be.

Q.—Have you estimated the profit you would derive from it?

A.—No.

Q.—Do you think that this Presidency would secure as large a revenue as Cochin or Travancore?

A.—Of course, you can get a lot from the West Coast. In Cochin, for instance, you get 2½ lakhs from tobacco alone. In other parts of the Presidency the *biri* is the most common form in which tobacco is consumed.

Sir Percy Thompson. Q.—Regarding customs, you say, "For revenue purposes it is better to impose import duties on all articles rather than a few, since it is comparatively easy to collect them at the ports without any large addition to the staff". The best instance of a country which has customs for revenue purposes alone is England. But now England has a tariff duty on very few articles indeed, like alcohol, tea, coffee, etc. Is it not rather harassing to have every little article subject to customs duty?

A.—But the commodities that are imported into our country are not so universally consumed by all classes. We have very few commodities of that type which are consumed in all parts of the country in the same quantities. There are commodities like the mill-cloth, for instance, consumed mostly by the middle classes; and machinery and commodities like that are only consumed by the producing classes.

Q.—It may be you may not get the revenue you require by taxing a few articles. But surely, if you can get your revenue from a few articles which are in common consumption, there is much less friction than if you are to tax every sundry article coming into the country.

(No answer.)

Q.—In regard to export duties, would you accept the proposition that it is not justifiable to put an export duty on commodities unless they are in the nature of a monopoly?

A.—Yes.

Q.—Is it not the case that the articles on which you can put an export tax in India are few?

A.—Yes; very few.

Q.—You say jute is a monopoly?

A.—Yes.

Q.—What about rice?

A.—Rice is more or less a monopoly in Burma; and I think a tax on rice will be shifted to the foreign consumer, provided it is not very high.

Q.—You think Burma fixes the world price with regard to rice? If the price is fixed elsewhere and Burma has to compete with it, surely if you had an export duty on rice, it must be paid by the Burmese producer.

A.—Yes. My idea is that there is some margin in the case of Burma rice; so that if the rate is not very high, it is likely to be passed on.

Q.—You say that is the case with tea?

A.—Yes; in the case of Indian tea there has been an increasing demand in the world market.

Q.—You say that the demand for Indian raw materials and food-stuffs is so great. Have you in mind any other commodities to which an export duty might be applied?

A.—I think a small duty may be imposed on hides. There is one already, of course. Then there is raw cotton.

Q.—Is there a demand for Indian raw cotton?

A.—Yes.

Q.—In normal times, do you think that if you put an export duty on cotton, it would not affect the export?

A.—If it does, the State might revoke the duty. It depends upon the circumstances. The foreign demand for our commodities must be taken into account in imposing the duty.

Q.—It will be rather disturbing if these duties are to be varied every now and then.

A.—At least it will last for a year.

Q.—With regard to taxes on transactions, you say: "Another important source of revenue in India is the tax on transactions such as free distribution of property, inheritance, legal and commercial transactions". And then you say, "Taxes on judicial proceedings in the shape of stamps and fees should, on the other hand, be so limited as just to pay for the cost of the courts". Has this principle not been observed in Madras? The fees were only raised last year as an exceptional measure.

A.—I have no idea. But I think the State makes a lot of money out of judicial proceedings.

Q.—Not before 1924.

A.—Possibly it did not.

Q.—You don't approve of an entertainments tax?

A.—No.

Dr. Paranjpye. Q.—You are generally in favour of inheritance and succession duties?

A.—Yes.

Q.—You consider that as a fair tax?

A.—Yes.

Q.—What would be the nature of that tax? Did you study in detail the death duties in other countries?

A.—I know some general features of the death duties in England.

Q.—What are they?

A.—You get some information in the questionnaire itself.

Q.—Death duties in England consist of two parts: one is an estate duty on the whole estate at a progressive rate, and the other is a legacy or a succession duty charged at different rates according to the degree of relationship. Do you think both these kinds of duties together should form the death duties in India?

A.—Yes.

Q.—In the case of a succession by a distant relation, the rates should be high as also in the case of large estates; and you should also have a progressive duty?

A.—Yes.

Q.—The main difficulty in considering these death duties is with regard to the Hindu joint family. How are you going to assess these death duties in the case of a Hindu joint family?

A.—According to the property or according to the share of the deceased.

Q.—Now, in England these death duties are simplified, because the property passes at the death of a particular person. But in India according to our law, property passes not only on the death of a

particular person, but also on the birth of a particular person. In fact, a man's property, either actual or potential, is increased by the death of someone in the family and is decreased by the birth of some other person. Therefore, if you want to assess these death duties properly whenever any property passes, either actually or potentially, theoretically at any rate, you must have death duties both at the death and the birth of a person.

A.—I think it will be possible to estimate the share of the deceased at the particular time when the death takes place.

Q.—You agree in the first place that, whatever the tax may be, it should be uniform on all the communities?

A.—Yes.

Q.—If your system is one which favours one community more than another, it is a bad tax.

A.—Yes.

Q.—Now take a Christian and a Hindu, and to make matters extremely simple, I take this illustration. Suppose there is A, a Christian who has a son B; and there is a Hindu C who has a son D. When the Christian, A, dies, B inherits the *whole* estate. Let us suppose that both these families have property of the same value. When the Hindu, C, dies, seeing that we are governed by the Mitakshara law in many parts of India, D inherits only half the property, because the other half already belonged to him and he could have claimed partition at any time.

A.—But in assessing D, you can take the whole estate into consideration.

Q.—So that your principle that only property passing on death would be taxed will not apply.

A.—We have to take the whole.

Q.—Now take the other side. If B were to die, no property would pass. On the other hand, if D dies, his half property would pass to his father.

A.—But in the case of A also it passes to somebody.

Q.—But while A was living, B had no share in the family property. On the other hand, in the case of the Hindu, half the property belongs to C and a half to D. When D dies his half of the property will pass to C.

A.—I have no experience of the legal aspect of the case. I do not see any great objection in making the practice uniform, viz., when the son dies during the lifetime of his father and leaves no heir to succeed him, the property may be left untouched: if a partition is effected, a succession duty will be levied.

Q.—You agree that all the communities should be treated exactly similarly in respect of the inheritance or succession duties?

A.—Yes.

Q.—Then there is the question of how to deal with this tax. You say that these death duties should be entirely provincial.

A.—Yes, managed provincially.

Q.—In the case of management there would be a great difficulty, because a man might have property in two different provinces.

A.—That is very seldom. It is not a normal feature.

Q.—There may be shares in a company located in various provinces. It may be Government securities. In what province are they supposed to be located?

A.—Of course there may be some difficulty with regard to that. But such cases are very few in India.

Q.—Do you agree that these duties should be levied at the same rates in all provinces, or would you have a higher rate of duty in Madras, for instance, and a lower rate of duty in Bengal and so on?

A.—No. The duty must be uniform.

Q.—Don't you think therefore that so far as the administration is concerned, there must be a common administration—something like the administration of income-tax?

A.—I am not opposed to that. It is a question of administrative expediency.

Q.—How do you arrive at this exemption limit of Rs. 5,000?

A.—It is only a rough calculation. The principle is that people with smaller estates should be exempted.

Q.—You think that a man with a property worth Rs. 5,000 is just on the margin of subsistence?

A.—Yes.

Q.—On page 88 of your written memorandum, you mention four kinds of property and you consider that the first and the last are comparatively easily assessable. I should have thought that jewellery is one that can be easily taken into account.

A.—But people might conceal it.

Q.—Wherever death duties are levied you think these difficulties are common?

A.—Yes.

Q.—With regard to partition, you want to have death duties in order to catch hold of property when it passes from one hand to another without proper consideration. Now among the Christians a son has no right to claim a partition, but among the Hindus in our part of the country the son has a right to claim partition. Now if these death duties are levied, the tendency will be generally for every one to ask for partition in order to escape the duties.

A.—I would impose a duty whenever the partition is effected. I suggest a duty on partition.

Mr. R. SURYANARAYANA RAO, Servants of India Society, Madras, was next examined.

Written memorandum of Mr. Suryanarayana Rao.

Q. 1.—*Agricultural statistics.*—Unless one has practical experience of the various methods adopted in arriving at the estimates of crops, it is not possible to criticise or suggest other adequate measures for the purpose. Such criticism as is offered is based on the remarks contained in the appendices to the estimates of area and yield of principal crops in India in 1922-23, where the methods of framing estimates of crops and methods of collecting statistics are narrated. The memorandum on the average yield per acre of principal crops given in the Quinquennial Report for the period ending 1921-22 has also been availed of.

Method of framing estimates of crops.—The acreage of crops in areas where there are trained village establishments can be deemed as fairly accurate. For areas containing permanently-settled estates, lands held on privileged tenure and unsurvey areas, I would suggest that Local Governments should frame laws which would make survey and the maintenance of trained village establishments compulsory. Evidently, there is no scope for legal enforcement of these at present. If this is done, the methods followed and the statistics gathered will be more accurate. At any rate, there will be a uniform method throughout the country.

As regards calculation of areas under crops, I am inclined to agree that the area sown is most important, and the fact that the crops did not come to maturity need not be taken into consideration; for as it is stated in the 'methods of framing estimates of crops', the failure of crops affects their outturn and not the acreage. As regards the exception mentioned, I would like to point out if the sowings of the forecast crops are to be omitted owing to failure, the other crops raised on the same land should be taken into account when final figures are given. Leaving this area out of account altogether is not the right method. With reference to the several crops raised in a mixed field, while the area to be returned should be the area covered by the principal forecast crop, but for purposes of outturn the yield of all the crops should be taken into consideration. I believe this method is being followed now.

As regards standard of normal outturn, it is stated to be the average yield on average soil in a year of average character. It is very difficult to say what an 'average' in all these cases will be unless a series of normal years are taken and the average is arrived at. I do not think that it is right to say that the average of a series of years' figures is merely an arithmetical average. In my opinion, that is the real average. The crop-cutting experiments will then enable us to see how far the yield in a particular year is above or below the average. The average may change perhaps from year to year.

The estimate of outturn should be arrived at by crop-cutting experiments conducted in each village by some responsible revenue official, say, the revenue or *firka* inspector. These estimates may be compared with those made by the village officers whose estimates are the purest guess work.

In arriving at either the estimate of normal outturn or of the quantitative estimate of outturn, the figures relating to the results on the Government farms are often misleading. The efficient methods of scientific cultivation on these farms naturally yield better results.

As regards the method of collecting statistics, I believe the system adopted in Madras with the adoption of suggestions made already is the best method. All provinces may usefully adopt it. This method should be made applicable to all classes of land, if necessary, by legislation.

If the methods suggested above are followed, the fear of either under-estimation or overestimation will be greatly minimized.

Special crops. Tea.—The Government should insist on the gardens sending figures of production. These may then be subjected to the scrutiny of the local officers. It is stated in the Indian Tea Statistics, 1923, that "special efforts were, as usual, made to procure returns direct from non-reporting gardens and these efforts have so far been successful except in Southern India". In any general legislation passed for the collection of statistics, the Government should insist on the supply of figures relating to tea gardens.

Cotton.—If agricultural statistics are properly collected, the quantity produced will be available. The accuracy of this figure may be tested with the help of other figures given under this head in the annexure.

Figures relating to rubber and jute seem to be fairly accurate. As regards coffee, all plantations in extent even below 10 acres should be compelled to send the figures of production.

Live-stock.—A cattle census should be taken every year in all villages. This is not a difficult matter as the village officers are generally well informed about the cattle in the village. Perhaps, a distinction will have to be made in such a census between cattle useful for agricultural purposes and others.

Forests.—Statistics of the kind now prepared for Government forests should be called for relating to forests administered otherwise or private forests. These can be checked by the forest department with reference to produce in the neighbouring Government forests.

Industrial statistics.—The methods now adopted seem to be satisfactory. The industries department of each province should be held responsible for these statistics. This will be possible and will work satisfactorily if all industries, including mines, etc., and labour are made over to the responsible part of the Local Governments. At any rate, they should be provincialized, subject, it may be, to the residuary power of the Central Government to legislate on matters affecting industries in general.

Statistics of prices.—Nothing can be said against the present method. The defects pointed out by the Sugar Committee are inevitable and are not inherent in the method adopted. Every effort should be made to avoid the defects by the officers being asked to pay more attention to them instead of treating them as part of their routine work.

Income-tax statistics.—Returns relating to the various trades and professions of the assessees in each grade discontinued since 1917-18 should be revived. They have very useful purpose in determining the sources of taxation and also in finding out the unearned increments, etc.

Statistics of wage-earners.—Legislation is necessary for the purpose,

Vital statistics.—In this Presidency the reorganisation of the Public Health Department is sure to improve the conditions and remove the defects noticed in the census of India. One of the Assistant Directors of Public Health should be in charge of vital statistics.

Q. 2.—I have no additions to make to this list. I prefer the method adopted by Prof. Shah and Khambata. As regards the methods followed by Dr. Slater, I would like to say a few words as the estimate relates to our Presidency. In assessing the non-agricultural income, he has simply followed the method adopted by Lord Curzon, viz., the non-agricultural income being taken at 50 or 40 per cent of that from agriculture for the number engaged in non-agricultural occupations being 40 per cent of those engaged in agriculture. Whether this method can be applicable to an industrially backward province like Madras, is a point that should be considered. It is more than one can say that the proportion the non-agricultural income bears to the agricultural income is the same as the non-agricultural population bears to those engaged in agriculture. Anyhow, it is an arbitrary method. So, it is better to adopt the method followed to arrive at the agricultural income even in finding out the non-agricultural income.

Q. 3.—I agree there are no corresponding figures except in the matter of income-tax.

Q. 4.—I have already suggested in answer to Q. 1 how the statistics now collected can be made adequate and more reliable. But legislation will be absolutely necessary if exact figures are to be obtained.

Q. 5.—I do not think it is worthwhile undertaking a census of production.

Q. 6.—I advocate all-India legislation on similar lines. The Bill introduced in Bombay may not satisfy the requirements of all the other provinces.

Q. 7.—They have a very real value in enabling the Government and the people to know how far the economic conditions have improved and how any legislation passed has affected them. Besides they will help the Government to find sources of taxation from the data collected to arrive at the estimates. If a particular tax has proved obnoxious, these estimates will enable the Government to shift the burden on others on whom it is light.

Q. 8.—The list given in annexure C cannot be deemed satisfactory as they contain results of spasmodic efforts made by certain individuals and organizations. So far, no systematic economic survey has been carried out. I would advocate the need for economic survey of typical villages in the districts. Unless this is done, the enquiry cannot be considered to be reliable for the purpose of arriving at the real incidence of taxation on different classes.

Q. 9.—I would divide the population into two classes, agricultural and non-agricultural. This is only a broad division. If only direct taxes are being paid, we can arrive at the incidence of taxation very easily. There are a number of indirect taxes paid, which naturally make the incidence of taxation apparent and not real. This will be the case as long as indirect taxes remain. Family budgets may prove helpful in forming some approximate idea of real incidence.

Q. 10.—The latest budget figures give the revenue derived from sale-proceeds of waste lands and redemption of tax as Rs. 6.25 lakhs. No separate figures are available regarding penalties, etc.

Q. 11.—I am not aware of any other items except sale of trees which I am informed is included in revenue from forests.

Q. 12.—I am not quite certain if any part of the revenue derived from forests can be considered to be falling within the definition of tax.

Q. 13.—The Government should be content with a commercial return. The element of tax appears in the case of (*c*), but that will depend on the competitive price.

Q. 14.—The element of tax appears in any or all of these as soon, as the return is more than a bare return on the capital invested, as these are public utility services. As far as I am aware, I believe there is an element of taxation in all these at present.

Q. 15.—I think so. The rates charged should depend upon the sources of supply and not on the amount of capital invested and the cost of maintaining these sources, though these will have to be taken into consideration in

the case of productive works. The charge for water supplied should be a commercial return dependent on sources to avoid invidious distinctions which will result if the rates are based on the capital invested. The irrigation schemes are intended to increase the agricultural prosperity of the country. They should not bring in more revenue than a commercial return.

Q. 16.—A betterment tax may be imposed. The betterment contribution shall be annual for such term of years, and at such uniform percentage of the increase in value not exceeding 5 per cent, and it shall be levied according to the principles that govern betterment tax in the case of town-planning areas.

Q. 17.—Water-rates and betterment tax should be collected by Government direct from the tenants.

Q. 18.—I think so, unless the rates charged for services is more than the cost for such services. But they do not fall under the category of taxes imposed on the general tax-payer.

Q. 19.—In arriving at the general incidence of taxation, taxes imposed for expenditure on particular localities should not be taken into consideration.

Q. 20.—As the benefit derived is indirectly by the whole community, all taxes, whether paid by a particular class or the whole community, may be taken into consideration in arriving at the incidence of taxation for that locality, e.g., water tax, educational cess, etc.

Q. 21.—No taxation either direct or indirect can be considered to be voluntary unless it be that taxes are paid for particular services rendered for a particular class of people. Then they become fees.

Q. 23.—This is not the case in the case of drink. It imposes economic burden on the families of drinkers. It cannot be considered as optional as the drink habit becomes irresistible as is the case with all evil habits.

Q. 24.—I am in favour of tax on entertainments. As railway travelling has almost become a necessity, it will not be a tax on business but on necessaries.

Q. 25.—It is not possible to make any such distinction as the vice of drink has spread also among classes who by custom or religion are prohibited from taking intoxicants. While it may be possible to make a general statement that the excise revenue is mostly derived from the poorest classes, it is impossible to divide the classes of the population for ascertaining the burden on different classes.

Q. 27.—Every member of the community need not necessarily pay taxes in some form or other. It is the ability to pay that must be the test.

Q. 28.—Yes. But adult suffrage is the ideal.

Q. 29.—Direct taxes.

Q. 30.—Poll tax is highly objectionable as it violates the test, i.e., the ability to pay. Moreover, it is opposed to Indian sentiment. Nor is the capitation tax the best form of taxation.

Q. 32.—With the exception of salt tax, the taxes mentioned in Q. 31 are more objectionable. I must confess I do not know anything about the taxes mentioned except profession tax in the case of the lowest classes.

Q. 33.—I do not advocate an increase in the rates. A surcharge on a graduated scale for the purpose of augmenting the resources of the Provincial Governments may be levied on incomes above Rs. 5,000.

Q. 34.—The present graduation is satisfactory. But allowances of the kind given in England may be usefully adopted.

Q 35.—I advocate differentiation in favour of earned incomes. The rate may be lower than in the case of other incomes such as sums derived from investments in productive enterprises.

Q. 36.—Inquisitorial proceedings are inevitable.

Q. 37.—I favour the continuance of super-tax in the present form.

Q. 38.—Agricultural incomes may be taxed as all other incomes. I would very much like to draw a distinction between the actual earnings of a farmer and the income of the absentee landlord or the money-lender. As the tendency has unfortunately been to reduce the proportion of persons

actually farming as is evident from the census figures, a very small percentage of persons will be affected. Even in their case, I do not ask for complete exemption except in the case of incomes below Rs. 2,000. The rates shall be lower than in other cases.

Q. 39.—It is impossible to form a correct estimate. It may be less or more.

Q. 40.—There are other considerations. In India the joint family system prevails. So, what may be considered as subsistence level in other countries will not suffice here. The present limit must be maintained. Moreover, in other countries some allowances are given before the income is taxed. That is absent in India.

Q. 41.—This reproach cannot be justified.

Q. 42.—Different standard forms of account based on the nature of incomes may be prescribed to keep up uniformity in diversity.

Q. 43.—Non-official commissioners selected from among people of the locality may be associated with income-tax officers. This step will not only prevent frauds but also satisfy public opinion.

Q. 44.—Income-tax-free securities should altogether be discouraged.

Q. 45.—I approve of the collection of tax by means of a stamp duty.

Q. 46.—The whole question needs re-examination as was stated recently in the Assembly.

Q. 47.—I prefer assessment on the three years' average.

Q. 48.—If ability to pay is to be the test, I do not agree with the views expressed in the first and second quotations. The articles chosen for purposes of taxation must be first of all luxuries, and secondly, those on whom if taxes are imposed will not prove a burden on the poorer classes of the population. Taxation of necessaries, especially when such taxes will affect their value and decrease consumption, is not sound. The fact that the purpose of taxation is revenue should not make us shut our eyes to the economic condition of the people affected by the taxes.

As regards the quotation from Sir Josiah Stamp, I may be permitted to state that there is much that can be said in favour of this view. It has been applied in the case of tax on drink in this country. But if the purchasing power is low, large increases in such taxes will only impoverish the consumer. The tax imposed should be so adjusted as to prove an effective check on the consumption of the commodity considered detrimental to efficiency.

Q. 50.—I believe such gradation is practicable. In fact, some distinction is made in regard to articles of luxury such as manufactured and raw tobacco.

Q. 51.—As salt is a necessity of life of all classes and that ability to pay being test for taxation, salt tax should not be imposed.

Q. 52.—I agree if the premises are conceded.

Q. 53.—Such comparison as is sought to be made is not fair. It should be judged on the comparative income per head, especially of the poorer classes.

Q. 54.—I advocate the extension of the sale directly by Government.

Q. 55.—Yes.

Q. 56.—Protective duty can be imposed only when Government undertakes the manufacture and sale of salt. Then the difficulty perhaps experienced in Bengal which depends mostly on imported salt will not be so much felt.

Q. 58.—I prefer uniform weight.

Q. 59.—Yes. I am in favour.

Q. 60.—I cannot express any opinion on these methods. But certainly salt should be available free of duty for agriculture and industries.

Q. 61.—Yes. I expect it in the near future in the whole Presidency.

Q. 62.—I have already sent a copy of the note on the subject sent to the Madras Excise Committee. Also another note sent by the Madras Temperance League in the drafting of which I had much to do.

I am in favour of the *principles* underlying all the proposals of Dr. Mathai and some of the proposals of the Bombay Excise Committee.

Q. 63.—I agree with all the statements except the last two. But as I have stated already, high taxes alone will impoverish the consumer unless his purchasing power is high. This is more so in the case of the poorer classes. The economic waste, apart from other considerations, involved in drink is so great that on that ground alone measures other than high license duties, etc., are necessary, if deliberate discouragement of alcohol is to be effectively done.

While the view of Sir Josiah Stamp appears sound on paper, practical experience has shown that it is not really so. Drink bill forms such a large part of the earnings of the wage-earners that it has affected expenditure on primary essentials and has, I have no doubt, affected the efficiency of the workers. Experience in this Presidency shows that while the revenue derived from taxes on drink has increased, there has been no corresponding decrease in consumption. In the case of toddy, the number of trees tapped has increased, and this necessarily means increase in the consumption.

Q. 64.—As a measure of taxation, the policy followed in our province is all right.

Q. 65.—It is not possible to say whether duty per gallon in a particular area is high or low as it depends on the demand. I do not think it is practicable to reduce the variety and introduce a uniform rate.

Q. 66.—I do not believe it is so.

Q. 67.—The locally-made spirits should be taxed at the tariff rate. Freedom of transport is not absolutely necessary.

Q. 68.—I strongly approve of this.

Q. 69.—A duty should be levied on the borders before it is passed on into the other province.

Q. 70.—Sweet toddy is at present free from duty. Separate licenses are issued for it. I think a tree-tax will do.

Q. 71.—For the reasons already stated in the case of country liquor, there is no harm in maintaining a variety of rates.

Q. 72.—I think so.

Q. 73.—It is satisfactory. But there is the danger of a 'combine' among licensees to bring down bids at the time of auction.

Q. 74.—If the restriction is confined to shops within a particular area, naturally the value of shops that are allowed to remain obtain monopoly. The policy must be to locate shops far distant from one another on the outskirts of towns or villages, preferably far away from places of habitation. Even then, to some extent, there will be monopoly. But that is inevitable on the road towards the goal of prohibition.

Q. 87.—I advocate the substitution of following taxes in order to make up to some extent the loss in excise revenue:—

(1) Banking transactions.
(2) Betting (as long as it is not made penal).
(3) Entertainments.
(4) General taxes on turnover, etc.
(5) Motor cars.
(6) Luxuries.

Of course, the list given in the annexure is not exhaustive. There are other taxes besides these that can be imposed without burdening the poorer classes of the population.

Q. 88.—Lawyers will be able to speak with authority on this question. As a layman, I would suggest stamp duties on a graduated increased scale may be imposed on transactions relating to free distribution of property, inheritance and commercial transactions. But I would exempt transactions below a particular sum. What this sum should be requires consideration as it will differ according to the nature and purpose of the transactions.

Q. 89.—Taxes on judicial proceedings, either in the form of stamps or court-fees, should not exceed the cost of administration. Even the poorest man should be able to obtain justice at minimum cost.

Q. 90.—I do not agree with the criticism. If we accept this statement, the State can levy no taxes as they will somehow or other interfere with personal and social utility.

Q. 91.—Transfer of shares should be declared valid only on payment of stamp duties.

Q. 92.—There are many fees in which you will find an element of taxation, e.g., court-fees, stamp duties, registration fees, railways, irrigation, post and telegraphs, etc.

Q. 93.—I am in favour of charging a higher sum. But here also some exemptions must be provided.

Q. 94.—I do not think there are any more.

Q. 95.—I would plead for the extension of the entertainments tax. The cost of collection in Bombay and Calcutta where this tax has been imposed, has not been high.

Q. 96.—"Tax is a compulsory exaction by the State of a part of the wealth of individuals for public purposes".

"Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil".

Land revenue in India is a tax. The question has been discussed so often and so thoroughly that it is not necessary to state why I consider land revenue as a tax. It has even been recognized by Government that revenue derived from land is land tax revenue.

I do not think that *peshkash* can be considered as a tax. It partakes more the characteristics of rent.

Q. 97.—Yes. Land tax affects his budget considerably. He will not ordinarily get remission or suspension. I know of some instances in which though a case was made out for a suspension, it was not granted. It was felt as a great hardship.

Q. 98.—I agree with all the criticisms. But as regards the last criticism, it is not wholly true as the revenue officials engaged in collection work attend to many important administrative duties.

Q. 99.—It will lead to inequality. But average of prices for normal years will minimise it to some extent. As long as temporary settlements are continued, this is unavoidable.

Q. 100.—Rupees 2,000 can be considered as the bare minimum subsistence level. It will be easy to ascertain the agriculturists' gross income. But the expenses of production cannot be properly estimated as agriculturists rarely keep accounts for expenses incurred. Moreover, if taxes are to be levied on the gross income, the ignorant ryot will be at the mercy of the revenue officials, who will naturally be the persons that will estimate his income. After all, such an estimate will be guess work and cannot be relied upon for the purpose of taxation.

Exemption of this kind proposed may result in further fractionisation. I am not sure that will always be the result.

Q. 101.—I think that may be considered as one method for discouraging fractionisation.

A law should be passed prohibiting fractionisation beyond the economic holdings. I understand that the Bombay Government propose to introduce a measure to prevent fractionisation. That may be of interest as Bombay has paid great attention to this subject for the past many years.

Q. 102.—If permanent occupancy rights are granted to tenants who cultivate waste land brought under an irrigation scheme, I am not against even State-ownership of such land.

Q. 103.—I advocate the abandonment of taxation of lands within municipal limits in favour of local authorities.

Q. 104.—(*a*) Land revenue is paid by agriculturists, and so to divide it by the total population to arrive at its incidence is not correct.

(*b*) To divide land revenue by occupied area is to ignore the fact that all occupied area is not cultivated. Even if the cultivated area is taken into account, we will get only incidence per acre.

(*c*) Comparison of assessment on soil units will only give an idea of the land revenue paid on different classes of soil in different provinces and will not give the incidence.

(*d*) Percentage borne by the assessment to rents or annual value is not always the safe guide for various factors affect rents and the annual value.

(*e*) The relation between the land revenue and the gross or net income cannot give the real incidence. It gives only the proportion paid out of the income which may in general show how large or small is the part of the income is land revenue. Moreover, various other factors enter into the question.

I prefer to divide the land revenue by the number of people actually engaged in agriculture. That will give the incidence and enable us to compare rates. At the same time, I must not be understood to mean that I do not value the different methods suggested. While for purposes of comparative real incidence they may not be conclusive, they have a real value for the purpose of knowing what the nature and effect of land revenue is in different provinces.

Q. 106.—I agree in general.

Q. 107.—I would prefer to transfer more taxes contained in Schedule I to Schedule II, e.g.—

Levy of no tax should be made imperative. That will be an interference with the discretion of local authorities.

Q. 108.—I cannot say anything about octroi or terminal tax as we have no such taxes in this Presidency. I think the other taxes are satisfactory.

Q. 109.—I cannot say.

Q. 111.—Tolls may be continued. The minimum distance between one toll gate and another need not be less than 15 miles. It may also depend on the jurisdiction of various local bodies.

Q. 112.—In whole from the owner. The burden is shifted on to the occupier often much more than the burden imposed on the owner.

Q. 113.—There shall be limitation as in the case of betterment tax. Let it be a percentage of the valuation. If the value increases, increased amount is collected. As regards land cess, the present limit is all right as the agriculturists have to pay many other cesses besides.

I do think the limitation necessitates recourse to other forms of taxation. But the burden in the case of taxes like the profession tax is shifted on to those who may not be now paying any taxes. Educational cess is an additional burden on the agriculturists.

Q. 114.—The limit should be raised so that the occupiers of houses with scanty means may be exempt from house tax.

Q. 115.—Land within municipal limits may be taxed just as agricultural land, the local authority getting a portion of the increased value, which will also generally be due to improvements effected by the local authority. Improvements made by the owner may be left out of consideration. But I realize how difficult it is to find out the causes for increased value. Even if it so happens that the tax imposed may be affected by the improvements made by the owner, I do not think that will prevent development of land for housing purposes, as demand for houses is usually growing especially in urban areas. For some years in the beginning, newly developed lands for housing purposes may be exempted from the land tax. This is for the purpose of encouraging house-building.

Q. 116.—I have no actual experience of any of those taxes.

Q. 117.—Grants-in-aid should be earmarked for particular services which in the interests of the community should be maintained. The basis on which grants are given must naturally vary with importance of the services and the amount that a local authority can be reasonably expected to raise for those services.

Q. 118.—I believe so.

Q. 119.—Taxes on business profits, capital stock of corporations, hotels, mines and transactions on capital and exchange wherever possible may be tried.

Q. 120.—I am inclined to agree with the proposals in (iv) except in the case of universal inhabited house duty. I am not in favour of this as it will violate the principle of ability to pay.

(i) Universal income-tax embracing every income does not take into consideration the ability to pay and also the subsistence level. So I am not in favour of it.

(ii) Tobacco monopoly is a suggestion I approve. Also tax on motor cars and race horses. Marriage is considered a sacrament and not a contract, and so registration fee on marriages is opposed to religious sentiments of the people, especially of the Hindus. Tax on betel and areca-nuts will be a tax on necessaries as the habit of chewing is universal. The difficulty of assessing it will be great.

(iii) Tax on dowries cannot be relied upon as there is now a strong feeling against dowries, and I believe in the course of a few years dowry system will become unknown. Moreover, it will lead to evasion, for, instead of amount dowry will take the form of jewels given as presents to the bride by the bride's parents.

(v) Export duty on jute and hides and skins are fruitful sources of taxation. Marriage duty is highly objectionable for the reasons already stated.

(vi) This suggestion is a very novel one. The difficulties of enforcing it will be many. Evasion is quite possible. Moreover, it will act as a check on internal trade.

Q. 121.—While I cannot say that the revenue derived from a duty on tobacco will be large, I generally agree with the statement made.

Q. 123.—Export duty on tobacco (raw and manufactured) and license fees for the manufacture and sale of tobacco for internal consumption will be the best means of levying a tax on tobacco.

Q. 124.—It is difficult to restrict area of cultivation. So I do not advocate that.

Q. 125.—I am not in favour of acreage duty.

Q. 129.—If my proposal is accepted, tobacco used for domestic consumption will be left out of account in levying a tax.

Q. 132.—The rates may be a little less than the import duties. But cigars and cigarettes may be taxed at the rates of import duties.

Q. 133.—I prefer specific duties.

Qs. 134 and 135.—It is mostly due to habits. It cannot be due to duties. The import duties must be raised still further retaining the excise duties at the present rates of import duties.

Q. 136.—I prefer either (b) or (c).

Q. 137.—Yes.

Q. 138.—I think a judicious combination of all the three methods is possible. Prof. Rignano's suggestion that the rate of the duty should increase with the number of times the property changes hands may also be considered.

Q. 139.—(1) I do not agree to this view. The rates should change as the property changes hands and also on a graduated scale according to the value of the property and the degree of consanguinity.

(2) It all depends on what is meant by economic community. Inheritance of estates or property of certain value should be exempt from taxation.

(3) I support this view.

Q. 140.—It is difficult to say which is more appropriate to India. The conditions here are not the same as elsewhere. I think the rates should be worked out with reference to these conditions and also according to the principles accepted.

Q. 141.—(a) In a joint family on the birth of a male child, the child becomes entitled to a share in the property. If the child dies even in a few days, his share will have to be taxed. This is not fair.

(b) To tax the whole property on the decease of each managing member means that the property may in certain cases be taxed not even once in a generation. Moreover, it is not proper to tax the whole property on the death of the managing member.

(c) To make an annual or periodical levy would mean taxing property and not imposing duties on inheritance or succession.

I would prefer to tax the share of the property of the deceased in the case of all adult persons, i.e., persons who die after attaining the age of majority under the law.

Q. 142.—I agree.

Q. 143.—I wholly support the plea put forward.

Q. 144.—It is true it is difficult to enforce in the case of movable property. But when an application for succession certificate is made, the valuation of both movable and immovable property will have to be produced. There is nothing to prevent the applicant from underestimating or understating the value of the movable property. What I would suggest as a corrective is, to take into account the income of the deceased, if he is a divided member of the portion of the income, the deceased was entitled to in the case of the joint family and assess a percentage on that. This should be in addition to the tax on the property shown in the statement at the time when the successors to property apply for succession certificate. I admit the method suggested by me is arbitrary. But that seems to be the only method.

145.—The Central Board of Revenue is the most appropriate agency. The income-tax department in each province may be entrusted with collection on behalf of the Central Board.

Q. 146.—In the case of the joint family, Rs. 5,000 may be the exemption limit, and in the case of a divided member of the joint family Rs. 2,000 may be the exemption limit.

Q. 147.—I would prefer a combination of (2), (3), (4) and (5).

Q. 148.—The sources of revenue of the provinces are much more fluctuating and inelastic. I do not think the danger pointed out will ordinarily occur. The export trade depends on the prosperity of agriculture. If there is failure of crops, the land revenue also suffers.

Q. 149.—The separation of sources is not equitable, e.g., Bombay and Bengal.

Q. 150.—I believe so. But in the case of provinces which were before the new arrangements depending largely for their revenues on income-tax, I would like to suggest the adoption of plan (5) given in Q. 147 and suggest a portion of the income-tax should be made over to the Local Governments. While the case of these provinces is unanswerable, I would like that the Devolution Rules should be amended to enable the Local Governments to get a share of the income-tax. The present rules are not equitable and just.

Q. 151.—Land revenue should continue to be a source of provincial revenue.

Q. 152.—I accept the reasoning.

Q. 153.—The export duties should be so fixed as to permit the particular province to levy an additional duty the proceeds of which should form part of the provincial revenues.

Q. 154.—The present system is all right in regard to excise. But the Local Governments should be empowered to levy an additional duty on foreign liquors, and the right to fix the price of opium for internal consumption should be made over to the Local Governments.

Q. 155.—Tobacco should be a subject for provincial taxation.

Q. 156.—I accept the reasoning. Division of proceeds is practicable. Before the Reforms, the Provincial Governments were attending to income-tax work and were receiving a portion of the revenue from that source. The same principle may be applied in the division of proceeds from income-tax and succession duties.

Q. 157.—I do not think so. Stamp duties on transactions are paid in places, I believe, where the transactions take place. No need to draw any distinction between judicial and non-judicial stamps.

Q. 158.—I am not aware of any other taxes.

Q. 160.—I agree.

Q. 161.—I think it is fairly satisfactory. There is no need to impose any limit.

Q. 162.—Properties and transactions relating to any body should be taxed. No need to provide any exemptions.

Q. 163.—I advocate State enterprise.

Q. 164.—I cannot say anything about pawn shops. Certainly, life insurance may be monopolised.

Q. 165.—I do not approve of monopoly in the case of any other article except salt, opium and hemp drugs.

Q. 166.—I do recommend.

Q. 167.—I think so.

Q. 168.—The land revenue staff need not be entrusted with other taxation functions. I believe the staff is excessive especially in the higher grades of service.

Q. 169.—Breaking up naturally results in increased expenditure, at any rate proportionately larger expenditure. All the taxes now collected by the Central Government may be administered by the Central Board of Revenue and one establishment can be made to look after the collection of these taxes.

Q. 170.—I have already suggested succession duties may be administered by the Central Board.

Q. 171.—I am inclined to think that there is much to be said in favour of the view expressed by Mr. Adams. I cannot say at present if the need for the course suggested exists. Anyhow it is better to provide ourselves against such a contingency.

Mr. Suryanarayana Rao gave oral evidence as follows:—

The President. Q.—Do you represent the Servants of India Society?

A.—I do not represent the Servants of India Society. I am a member of the Society, but I am voicing my individual opinion.

Dr. Hyder. Q.—On what principles are the water-rates for irrigation in this Presidency fixed? Have you any acquaintance with the system in Madras?

A.—They are fixed on the basis of the source of supply. If it is perennial supply it is classed as class (1); if it is a supply for eight months and more it will be classed as class (2); for more than five months and less than eight months class (3); for three months and more but less than five months class (4) and the rest as class (5). That is what I find in the settlement reports.

Q.—You say in speaking of the poll tax that Indian sentiment is opposed to this tax. Could you give any authorities from ancient books?

A.—I have none.

Q.—You approve of the salt tax?

A.—It is less objectionable than the other taxes.

Sir Percy Thompson. Q.—Is the present graduation of income-tax satisfactory?

A.—I think so.

Q.—You say the kind of thing adopted in England would be useful?

A.—I have read about the new income-tax in England. A single man is given a certain allowance before the income is taxed, and in the case of a married man, there is a higher allowance.

Q.—Could that distinction be applied to India? Do you know any single man who pays income-tax?

A.—There may be a few.

Q.—Is not the number very small?

A.—It is true.

Q.—For the sake of quite a handful, is it necessary to make a distinction?

A.—I would like to make the distinction in the case of families.

Q.—In view of the fact that the number of single men is very small, is it necessary to make any differentiation?

A.—The differentiation may be made but it may not come to effect.

Q.—I doubt if it is ultimately worth making.

A.—But that is my view.

Q.—You advocate differentiation in favour of earned incomes?

A.—Yes.

Q.—Under the existing law is not most unearned income, that is, rent from land, exempted from income-tax altogether?

A.—I have later on said that agricultural income should be taxed. People who earn in offices and firms have the limit of Rs. 2,000. Owing to the cost of living being high now, they rather find it difficult to pay on Rs. 2,000. Therefore, I suggest lowering the rate of tax in such cases and keeping the present rate in the case of others.

Q.—The vast bulk of unearned income is not taxed at all.

A.—I would like all the unearned income to be taxed. In Italy it appears the salaries of Government servants are taxed less than the income of other people.

Q.—Their tax is the same as others.

A.—I read it in 'Public Finance' by Robinson.

Q.—When you talk about Italy I think you mean the tax on total income?

A.—Yes.

Q.—Are you in favour of allowances for children?

A.—I would like on an average that five persons should be taken for a family. When we give family allowance we may take it that a family represents five persons.

Q.—Are you going to standardise the number of people?

A.—For purposes of calculations you should have some figure.

Q.—If the family consists of ten persons, would you double the rate?

A.—Yes, if it is brought to the notice of the Income-tax Commissioner. The minimum should be five in India because in India we have the Hindu joint family. For the sake of tax I do not think families would increase.

Q.—In Q. 36 you say inquisitorial proceedings are inevitable.

A.—They are inevitable if they want allowance. If they make an application and claim that their family consists of so many persons, the State in order to give the allowance must carry out inquisitorial proceedings.

Q.—In England it is a simple thing. Supposing a man says that he has got twenty children the assessor has only to go and see the register of births and deaths which is absolutely conclusive. But here he would have to make enquiries.

A.—Even here perhaps they can refer to the vital statistics.

Dr. Paranjpye. Q.—They are very imperfect.

A.—I do not mind inquisitorial proceedings if they want the benefit. Otherwise they would forego it.

Q.—Are agricultural incomes fairly taxed?

A.—The feeling is that owing to the different rates in the different provinces and owing to other factors in fixing the land revenue, land is taxed more than other incomes. But I do not wholly approve of that feeling. But surely if agricultural incomes are to be taxed the permanently-settled estates ought also to be taxed.

Q.—They pay land revenue.

A.—They pay *peshkash*. They don't pay land revenue. Their assessment is not revised once in thirty years.

Q.—Don't you think that land revenue is part of the cost of the business rather than a tax? When you buy land, you pay such a price as would be justified by the net income you would receive from the land. You would take into account the land revenue that you will have to pay and deduct the same from the income. So that it is not a regular tax that you are paying. A tax would be on the net income you derive.

A.—I do not think so in this province. In arriving at the net income, expenses of cultivation and other factors come into consideration. There is already a great deal of feeling that sufficient amount is not allowed for other things.

Q.—Suppose A is buying land and B is buying a factory. Each is prepared to spend Rs. 20,000. Each one would expect to make a net profit of Rs. 1,000. A will buy land which would bring him a net Rs. 1,000.

That would mean the amount that would be left to him after the cost of cultivation and the land revenue has been paid. On the other hand, B who buys the factory would similarly take into account the cost of running the factory, the wages of the labourers, the cost of raw materials, the cost of production, and then if he finds that he can make Rs. 1,000, then he would be prepared to pay Rs. 20,000. In that way these two people are on a par. If one invests Rs. 20,000 on factory and another invests the same amount on land, both would get thousand rupees from the investment. In what way are these two different? After all, everybody knows the amount of revenue that will have to be paid and the amount that will finally remain in the pocket. Are not these two identical?

A.—Yes.

Q.—In that case you charge income-tax for one and not the other?

A.—That is why I suggest agricultural incomes might be taxed.

Q.—It is said that the first is already paying land revenue.

A.—That is the feeling; but I don't agree to it.

The President. Q.—With regard to Q. 56 if Government have a complete monopoly then you would advocate a protective duty?

A.—Yes.

Q.—Why do you suggest only in the case of Government undertaking the monopoly?

A.—Unless it is paying they may not continue to manufacture.

Q.—You think Government undertakings of that sort are satisfactory?

A.—I believe, Sir, that State undertakings are for the good of the country.

Q.—You would accept prohibition as the goal in the near future in the whole Presidency?

A.—In the near future, but, I think, I ought to have said 'gradual prohibition' only. We do not want immediate prohibition to-morrow.

Dr. Paranjpye. Q.—You mean it is a pious aspiration?

A.—Not that, we would like to reach it within a number of years. There is the economic consideration first.

The President. Q.—You have had experience of labour unions, is there more absenteeism on Monday mornings?

A.—Yes.

Q.—Have you got any statistics?

A.—No, but I have seen in the famine areas and other places where the workers have been doing work, at the end of the week all the money, at least most of it, used to go to the toddy shop. In fact, I made a representation to shift the toddy shops that were within five miles of the camp, and that was not done with the result that all the money was going to the toddy shop. There was also a resolution on this question before the Council but it did not come up in the ballot and so it was not discussed.

Q.—Do you think these people even sacrifice their necessary food in order to get *tari*?

A.—Yes.

Q.—Then, you think, by passing a decree you can cure them of this habit?

A.—I think so. There are so many things that the State can do for putting a stop to this evil.

Q.—How are you going to stop it?

A.—When you remove the temptation from them, there will be nothing to tempt them.

Q.—Does not temptation exist as long as the *tari* trees exist?

A.—At any rate, they will find more difficult to get up the *tari* tree and tap it themselves and drink.

Q.—Who is going to stop it?

A.—Public opinion would stop it.

Q.—Has it done so in America?

A.—There are so many stories about American prohibition that I cannot speak with any authority. I have read a number of books and leaflets that say it has been a very great success, but there are some others who say that it is an absolute failure.

Q.—It depends on what you call a success.

A.—It depends upon the persons who visit and report also. It has been known that there is less absenteeism on Monday and also there are more savings in the banks, etc.

Q.—Is there any absenteeism on Monday morning?

A.—Absenteeism alone need not be taken into consideration.

Q.—But that is one of the aspects which has been suggested in America.

A.—That evil may not exist, but I cannot commit myself to any opinion in that matter unless I have statistics, but there are other things which are sufficiently grave for the Government to take action in this matter.

Q.—What are they?

A.—As I said the poor earnings of the bread-winner of the family go to the toddy shop and so other members of the family suffer.

Q.—Do you propose to stop the money being spent on drinking as the result of your scheme?

A.—To some extent it will be stopped. Then drink will not be available so easily as at present.

Q.—On the other hand, our information is that in the provinces where there are no shops it is much more easily available.

A.—I have also heard that. But the official estimates and the non-official estimates always differ.

Q.—We had a non-official witness in the Punjab who said that he had come across 50 stills in one jungle.

A.—May be. When we want to put down an evil of long standing, such illicit distillation is sure to crop up, but it ought to be stopped. It may also be due to the want of supervision by the *abkari* department.

Q.—Would you then allow it to be put down by an army of officials?

A.—I think if more officials are necessary, we should be prepared for it.

Q.—You say experience in this Presidency shows that while the revenue derived from the tax on drink has increased, there has been no corresponding decrease in consumption. Are you making this statement from the official reports or from the non-official reports?

A.—Only from the official statistics.

Q.—But official statistics show that there has been a decrease.

A.—I say corresponding decrease with reference to the increase of revenue.

Q.—Would you mind explaining to us what is meant by "*corresponding decrease*"?

A.—I mean the percentage increase of revenue is higher than the percentage decrease of consumption. Therefore, I do not think doubling the taxation is the only way.

Q.—Would you hold in a matter of this kind that the decrease in consumption should bear the exact proportion to the increase in revenue?

A.—At least as nearly as possible.

Q.—Would you apply this theory to any other tax?

A.—I do not know that. The policy is said to be the maximum revenue and minimum consumption. We point out that the former has been achieved, but the latter has not been achieved even according to the statistics.

Q.—Is not the point where you get uncontrollable illicit distillation a limiting factor?

A.—Yes, of course.

Q.—If you neglect this point, it is quite easy to extinguish licit consumption altogether. I would point out there are provinces where there has been a reduction of more than 50 per cent, in licit consumption as the result of increasing the revenue and reduction of shops.

A.—I have no experience of those provinces. So I cannot endorse this view.

Q.—You say, "Sweet toddy is at present free from duty. Separate licenses are issued for it. I think a tree-tax will do".

A.—"Separate licenses are issued" is wrong, it should be "no licenses are issued".

Q.—What do you mean by that?

A.—A tree-tax can be levied. If it is a source of revenue I do not mind taxing it. If it is proposed to tap other sources of revenue instead of levying a tree-tax a small tax might be levied on the quantity of toddy used for industrial purposes.

Q.—That means it will indirectly affect the trade in sugar made out of *tari* now.

A.—It may be.

Q.—You suggest a tax on banking transactions as one of the substitute taxes to make up to some extent the loss in excise revenue. Do you mean to say that it is not desirable to encourage people of India to use banks instead of hoarding their money?

A.—I think the tendency to invest money in banks has grown tolerably well and nothing will prevent the banking transactions going on as usual.

Q.—What would be the amount, one per cent?

A.—I think it may be half a per cent on every transaction.

Dr. Paranjpye. Q.—You mean to say on every cheque also?

A.—I think we are already paying on cheques.

Q.—Do you mean every time you draw a hundred-rupees cheque you will have to pay eight annas?

A.—It may be. If not, they will have to send their money by money-order; in that case too the State gets some money.

The President. Q.—You say you would advocate also a tax on entertainments; have you made any estimate of the yield?

A.—I have not made any estimate. I have heard that in Bengal the amusement tax has yielded Rs. 21 lakhs.

Dr. Hyder. Q.—What entertainments would you tax?

A.—Wherever admission is by tickets for which money is charged.

Q.—That means people who live in the town will pay and other people who indulge in singing parties and in villages would not pay.

A.—Yes.

Q.—Will it not amount to taxing one class of people?

A.—It might be taxing one class of people, but it will be only taxing the people who are in a position to pay; whereas the people who get free entertainments, naturally, have other obligations under which they will have to pay.

Q.—Have you studied the general nature of these taxes?

A.—No, except what is given in the annexure to your questionnaire, I have no idea. But I had a talk with some merchants and learnt what their feelings are and found that almost all of them are in favour of them. But they will not come out and say it.

Q.—Can you tell us if you have any other tax to propose?

A.—I have already sent in a memorandum to your Committee where I have proposed different taxes.

Q.—We have been through the Temperance Association Memorandum, do you agree with it?

A.—My suggestion is almost the same.

Q.—I am afraid according to your suggestion it will be difficult to make up the excise revenue from the taxes which you have proposed.

A.—Yes, that is why I say gradual prohibition, as revenue considerations matter very much in this country.

Dr. Paranjpye. Q.—You say land revenue in India is a tax; but in temporarily-settled areas it is a tax, and in permanently-settled areas it is a rent.

A.—Yes. What I mean is the relationship existing between the landlord or the zamindar and the tenant has been settled, but there also the Government is in an unfortunate position. I do not know whether they have power to evict the tenant. I do not think the Government is in a position to evict the tenant whenever it wants.

Dr. Hyder. Q.—Your view is that land revenue is a tax?

A.—Yes.

Q.—Let us follow this line of argument, but it is a tax on what?

A.—It is a tax on the net income.

Q.—You being a logical man, you will apply all the principles of taxation to this net income, that is to say, you would have a graduation. You would apply the principle of graduation, also the principle of differentiation, that is to say, earned and unearned. I now come to this line of reasoning from another point of view. You are aware that in England and other countries, land is private property.

A.—Yes.

Q.—You are also aware that people in England and other countries advocate a tax on all the increments in value which are not resulting either from the individual effort or from the sinking of capital.

A.—In fact, I have stated in one place that I would like the increments in value to be taxed.

Q.—It really comes to this, that the State can appropriate all that can be attributed to the land as such, after making an allowance for the individual effort *plus* the investment of capital on it.

A.—Not all, but only a portion of it. Just as in income-tax it is only a portion of the income that the State can take.

Q.—I accept that, but what difference is there left between the land revenue regarded as rent and land revenue regarded as a tax. Is there any material difference?

A.—There is no material difference except that there has been unnecessary academic discussion whether land revenue is a tax or rent. If it is considered as a tax, it must bear relation to the net income as income-tax bears to the income.

Q.—Coming to the other line of argument, in your opinion, the State would be justified in appropriating a portion of this unearned increment. Then it strikes me we are only fighting with words and there is not much material left for this warfare of works in India for the last fifty years.

A.—I think so. I am rather inclined to concur with you in this. After reading the literature on these questions, I have come to the conclusion that the State should get something, but whether land revenue is a rent or a tax, I think it is more an academic discussion, which does not serve any useful purpose.

The President. Q.—You say "a tax on betel and areca-nuts will be a tax on necessaries as the habit of chewing is universal, and the difficulty of assessing it will be great". Would you apply that principle to other things like *ganja*, etc.?

A.—No. The chewing habit has become a necessity in India and also it is considered good by Indian doctors.

Q.—Is not tobacco a necessity for those who are addicted to smoking?

A.—I think tobacco chewing and tobacco smoking also has become a habit with Indians. Especially tobacco chewing is a great necessity. I have also suggested the difficulty of assessing it more than anything else. It has unfortunately become a necessity of life with the poorer class of people.

Q.—Does not chewing betel, etc., lead to uneconomic expenditure?

A.—I think so, but doctors say that it aids digestion.

Dr. Paranjpye. Q.—As regards your answer on death duties, I think you prefer Prof. Rignano's suggestion that the rate of the duty should increase with the number of times the property changes hands. Do you like that suggestion?

A.—It may increase, it may be, in three or four generations.

Q.—I think his proposal is three generations.

A.—I do not agree exactly with that.

Q.—How many generations you would like?

A.—I think it can go up to five or six generations.

Q.—With regard to your answer to Q. 138, you say, "That the rates should change as the property changes hands and also on a graduated scale according to the value of the property and the degree of consanguinity". It does not mean that there should be any progressive taxation in the case of death duties. The change of rates from year to year means that you have not a uniform rate of taxation for all estates?

A.—I did not think of it from that point of view.

Q.—Have you considered to any extent the question of the joint family? You say quite rightly: "On the birth of a male child, the child becomes entitled to a share in the property. If the child dies even in a few days, his share will have to be taxed. This is not fair". It would be difficult at any rate to say whether it is fair or not, but how are you going to tax?

A.—I have suggested in my answer (c) that "I would prefer to tax the share of the property of the deceased in the case of all adult persons, i.e., persons who die after attaining the age of majority under the law".

Q.—I would put to you that according to your scheme you would treat the Hindu community much more favourably than any other community. I give you an illustration. Supposing there is a Christian A who has a son B and Hindu C who has a son D and both have exactly the same property. When Christian A dies, his son B will inherit the whole property, and consequently he will have to pay the duty on the whole estate. On the other hand, when the Hindu C dies his son D inherits half, as he was already entitled to the other half immediately he was born. Thus you will see when C dies his only son D inherits only half the property.

A.—Why?

Q.—Because he could have claimed partition during the lifetime of the father. You should therefore modify your statement. So in this case the property that passes on the death of the Hindu member will be treated more favourably.

A.—It may be. I did not anticipate this.

Q.—You would like to charge as would be done in the case of a Christian?

A.—Yes.

Q.—Then there is also the case of partition. In the case of a Christian, the son cannot claim partition during the lifetime of the father. The whole estate is supposed to have belonged to the father unless he makes a gift to the son; on the other hand, in the case of a Hindu in your Presidency and in Bombay, the son can claim partition at any time, and therefore if death duties are charged, in order to escape at least a portion of these death duties there will be a tendency to claim partition during the lifetime of the father.

A.—I have suggested in another note that you could also have partition duties along with it for partitions made within a certain number of years.

25th April 1925.

MADRAS.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraj Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A

M.R.Ry. Rao Bahadur P. T. SRINIVASACHARIAR, B.A., B.L., Special Officer, Public Works (Irrigation) Department, Chepauk, Madras, was examined.

Written memorandum of Mr. Srinivasachariar.

(NOTE.—The views set out in this memorandum are my personal views.)

The Taxation Committee, it is understood, have not so far found that the Government of any province have a defined policy on the subject of water-rates. The Committee evidently desire to lay down a definite policy if possible.

The conditions of provinces are so diverse that it would seem to be difficult to arrive at a general policy adaptable to the conditions of each province regarding the levy of water-rate: e.g., as will be explained later, neither the system of modules in force in the Punjab nor that of leasing obtaining in Bihar and Orissa would be suitable to this Presidency. And again the concessions found necessary in the Central Provinces, which are a backward tract, are hardly needed in Madras, where people except in parts of the Agency are fairly advanced and are sufficiently alive to the benefits of irrigation. In my humble opinion, each province will have to evolve a policy of its own suitable to its peculiar local conditions.

2. In this province about 70 per cent of irrigation revenue is from land which is classed as wet in the revenue accounts and on which the charge for water is consolidated with the land assessment. The consolidated wet assessment is fixed on a consideration of the quality of the soil, the nature of the water-supply, the situation of the field with reference to its source of irrigation and certain other factors, but has no specific relation to the value of water. Government lands registered as dry are in certain localities charged water-rate at an amount equal to the difference between the dry assessment on the land and the corresponding wet assessment, or a fraction thereof according to the nature of the crop. This method of charging for water is known as the differential water-rate system. Government lands (registered as dry) in tracts, other than those where the differential water-rate system is in force, and proprietary lands are charged fixed water-rates. There is a general scale of fixed water-rates, but special rates have been prescribed for certain special irrigation works. The various scales are given in the answers furnished by this Government to the questionnaire issued by the Committee.

At one time it was thought that the fixed rate should take into account not only of the supply capacity of the source, but also of the productive value of the soil to which the water was applied. Such a system would savour somewhat of the differential water-rate system. The latest view, however, is in favour of a simple scale which should eliminate all indefinite factors, such as the nature of soils and the effect of water upon them, and take account only of the more definite factors, viz., the area irrigated, the

quantity of water supplied determined with reference to the nature of the crop—wet or dry—and the period of supply. A proposal to replace the existing differential as well as fixed water-rate systems by a system of the kind referred to above is under the consideration of the Government and awaiting the passing of the Irrigation Bill into law.

3. It seems hardly necessary here to enter into an elaborate discussion of the comparative merits and demerits of the two systems—differential water-rate and fixed water-rate. Each has had among its advocates some of the ablest revenue officers of this province. The latest view, however, is that the differential water-rate system is very complex and inelastic and should be replaced by a simple system of fixed water-rate. It is considered complex, because of the meticulous and elaborate calculations which have to be made before arriving at the actual charge to be levied on a given piece of land. It is considered inelastic, because the charge is limited to a maximum of the difference between the dry rate of assessment and the corresponding wet rate. The rates of land revenue assessment on which the charge is dependent are themselves subject to a number of limitations. In theory Government are entitled to the value of half the net produce, but in practice the assessment represents only a fraction of this amount. Further, in connection with the Land Revenue Settlement Bill, Government have made a declaration that where rates of assessment are revised solely with reference to the increase in prices, the existing rates shall not be enhanced by more than 18¾ per cent. In these circumstances, the differential water-rate system cannot be expected to provide an adequate scale of water-rate. As was rightly pointed out by the Irrigation Commission of 1901-1903, future extensions of irrigation in this province could be effected only by the construction of expensive storage works. These works cannot be rendered productive unless much higher rates of water cess than are obtainable under the differential system are imposed; e.g., in the case of the Mettur project a uniform rate of Rs. 15 for the first wet crop and Rs. 7-8-0 for the second wet crop is required to make the project remunerative. There is absolutely no chance of obtaining such high rates under the differential water-rate system. The system is, therefore, unsuited to future projects and even as regards existing works it involves an unnecessary sacrifice of public revenue. The proposal of the Government to replace the differential system by a simple system of fixed rates which admits of the money rates being revised according to exigencies is, therefore, welcome.

4. The simplified system which the Government have in view is to divide irrigation sources into three groups with reference to the amount of supply which they can ordinarily afford and with reference also to the nature of the drainage facilities and fix money rates under each group for a single wet crop, for a single dry crop and for a *dufusal* crop. The following is the scale proposed:

	Group I.	Group II.	Group III.
	RS. A. P.	RS. A. P.	RS. A. P.
For a single wet crop per acre	6 4 0	4 3 0	3 2 0
Do. dry crop per acre	3 2 0	2 1 0	1 9 0
Do. *dufusal* crop per acre	9 6 0	6 4 0	4 11 0

Slightly lower rates are proposed for certain special tracts. The above scale is intended to apply to existing works and it is open to Government to fix enhanced money rates in the case of new works if necessary. The plan proposed by the Government has the merit of simplicity so far as the grouping of sources and the classification of crops are concerned. But the point is whether the money rates are based on any definite principle.

5. The policy that should be followed in the determination of water-rates was discussed at length in the later half of the nineteenth century and the views then expressed may be summarised as follows:—

(i) Water-rate should be fixed so low as to make it moderate in order that it might not press hard on inferior land.

(ii) The method suggested above would involve a certain amount of sacrifice of revenue and if this is to be avoided it would be necessary to have gradations of water-rate. Such gradations should have reference to the nature of the supply of water and not be proportioned to the outlay on the several works of irrigation, which would not be always easy to trace with accuracy.

(iii) The rate of water cess should be determined by the wants of the State, the maximum being the sum which the ryot is able to pay without discouragement to industry and improvement, and the minmum the amount required to reimburse the expenses incurred in furnishing the water and the interest thereon.

(iv) The rate should be fixed with reference to the cost of the supply to the Government and the increased value given to the land by the supply, by its safety from inundation, the freedom of its drainage and the saving in the cost of conveyance by the substitution of water for land transport.

(v) Water-rate should be uniform and not graduated according to the supposed profits of the recipient, as the value of the water to the seller remains the same whatever the purpose for which it is used.

In my humble opinion, water-rates should be fixed on a due consideration of the wants of the State, the increased value given to land by the supply and the economic condition of the tract.

The wants of the State should be determined not solely with reference to the cost of the particular irrigation work; regard should be had also to the cost of general administration including the cost of providing irrigation facilities in tracts less favourably situated. "Each district of the province is not to be governed for its own sake only or to be assessed according to its own requirements": e.g., the rich deltaic tracts of Godavari, Kistna and Cauvery where the existing rates are very low ought to pay the full fair rates, so that Government may have a sufficient surplus for the improvement of irrigation in districts like Bellary and Anantapur.

The State is also entitled to a share in the additional value given to land by the supply of water to it at the cost of the general tax-payer. No hard-and-fast rule can be laid down as to how this share should be determined; each case will have to be decided on its own merits. The value of the Government share may be recovered either in a lump sum or by an annual levy merged in the water-rate. The latter course, however, seems preferable for the following reasons:—

The levy of a lump sum virtually amounts to a redemption of a portion of the annual charge for water and to the extent to which the charge is so redeemed, Government will be deprived of the benefit of periodical revision.

During the initial stages of the working of a new irrigation system and until conditions are fairly settled, a readjustment of the *ayacut* may be found necessary. The levy of a fee may be construed as implying a guarantee to supply water and as precluding Government from excluding from the *ayacut* any land on which the fee has been recovered.

From the point of view of the ryot, there is the objection that he will have to pay a premium before he has reaped any actual benefit from the irrigation work. The levy of a lump sum is likely to be strongly resented, by ryot, while a small enhancement in water-rate would probably go unnoticed. In this connection, I would invite attention to the vehement opposition which the proposal to levy a small inclusion fee in the Kistna Eastern and Godavari Western deltas has evoked.

Lastly, the ability of the ryot to pay should also be taken into account in fixing the rates. The rates should not be so high as to press hard on the land, but should be fixed so as to leave a reasonable margin to the raiyat.

6. Judging from the standards mentioned above the existing scale of fixed rates as well as the scale which the Government intend to introduce are exceedingly low. The existing scale was drawn up more than half a century ago. Since then, conditions have considerably changed. The cost of administration has increased; the value of water has gone up in view of the high cost of construction of new works, and the prices of food crops have also risen. The ryot can well afford to pay four or even five times the extisting rates. For example, Government charge Rs. 5 per acre for a single wet crop on proprietary lands in the Godavari delta, whereas in some of the neighbouring estates the proprietors charge as much as Rs. 20 for water supplied from a far inferior source. It is reported that under the Atmakur Lift Irrigation Company's pumping system, a water-rate of Rs. 4 per acre is paid to the Government, and Rs. 8-4-0 to the company in addition to a premium of Rs. 50 per acre charged by the company. At 25 years' purchase the premium works out to Rs. 2 per acre. Thus the total amount paid per acre is Rs. 14-4-0. The existing rates may, I submit, be doubled without causing

any the least hardship to the ryot, and yet there was such a strong opposition in the Legislative Council to the raising of the rate even to Rs. 6-4-0. I am afraid that it would be impossible to secure a fair rate unless the people's representatives in the Legislative Council change their mentality. The members for Godavari and Kistna contended that the delta works in their districts were constructed at a comparatively small cost, that the outlay had been recouped several times over and that there was no justification for any increase in rates. Similarly, the Tanjore members might contend that the original works in the Cauvery delta were constructed by native kings, that the irrigation revenue derived from the delta is more than sufficient to cover the cost of improvements, and any increase in rates would be unjust. The members who object to any enhancement of the existing scale are the first to urge that the Government should undertake extensive schemes in famine affected districts. If the Godavari, Kistna and Cauvery deltas are to be let off with a light charge, it is difficult to see how funds can be found for the development of irrigation in tracts less favourably situated.

The Legislative Council insisted that it should have a voice in the determination of water-rates. In deference to their wishes, a provision has been made in the Irrigation Bill that water-rates shall be fixed by means of a Taxation Bill. In view of the responsibility which the members of the Council have assumed, it is hoped that they will give up the short-sighted policy which they have hitherto pursued and view the question in a broader light.

7. In the questionnaire issued by the Committee, mention is made of certain plans which have been suggested or adopted elsewhere. They are—

(i) To charge the bare cost of supplying the water, including interest on capital invested.

(ii) To charge a fair commercial rate.

(iii) To increase the land revenue by taking the same proportion of the combined output of land and water as would otherwise have been taken of the output of the land.

(iv) To charge by volume.

(v) To sell the water by auction to the highest bidder.

To the above may be added the system of leasing which seems to be in vogue in certain provinces. I have dealt with item (i) in connection with the principles on which water-rates should be fixed. I would, however, repeat my opinion that water-rates should be fixed with reference to the wants of the State including the cost of supply, the additional value imparted to the land by the supply and the ability of the ryot to pay. As regards item (ii) I venture to submit that it would be objectionable to view the State in its relation to its subjects as a mercantile business concern. While the State is entitled to raise by means of taxation the funds required for purposes of administration, it is equally bound to see to the welfare of its subjects, and anything which would savour of a commercial business transaction between the State and its ryots should, I submit, be deprecated. The proposal is also likely to dislocate the system of revenue administration in this province. Item (iii) is dealt with later in connection with the subject of consolidated assessment.

The system of charging by volume has been dealt with at length by the Irrigation Commission of 1901-1903 and by Mr. Leach in his report disposed of in G.O. No. 1089, Revenue, dated 19th July 1923. I can add nothing useful to the conclusions arrived at by Mr. Leach with whom I entirely agree.

The proposal to sell water by auction to the highest bidder or to lease it for a term of years is also objectionable on the ground that it would render it impossible for Government to deal directly with the individual ryot. Disputes are bound to arise in the matter of distribution of the charge by the auction purchaser or the lessee among the ryots and their recovery. I am aware of the existence of the system of leasing in some of the other provinces, but there the ryots were somewhat lukewarm, and special inducements were found necessary to encourage them to use canal water. In this province the ryots do not stand in need of any such inducement. Moreover, the Irrigation Acts of those provinces contain a specific provision enabling the middlemen to collect water-rate by summary process (vide Sections 83, Bengal Irrigation Act, and Sections 46 and 47 Northern India Canal and Drainage Act); there is no similar provision in our Irrigation Bill. The lessee or the purchaser will, therefore, have to resort to ordinary civil court, and we know what civil litigation in this province means.

8. In conclusion, I would submit that the land tenures of this province are peculiar. Under the same irrigation work there are ryotwari lands, minor inams, whole inam lands and permanently-settled estate lands. The crops grown are not uniform. The lands do not all have equal rights. There are vested rights such as *mamul* wet rights to be respected. The policy has all along been for the Government to deal directly with the individual ryot, and there is a lack of cooperative spirit among the ryots generally. In these circumstances, a system of simplified acreage water-rates, such as the Government had in view, seems to be the one best suited to the conditions of this province. The money rates proposed, however, are capable of enhancement. I would also suggest that the system of levying consolidated assessment, which is a serious impediment to the growth of Irrigation revenue, be abolished and that all irrigated lands be registered as dry and charged the appropriate water-rate in addition to the dry rate of assessment. The value of consolidation is detracted by the limitations to which the assessment of land revenue is now subject. Consolidation may have been a useful expedient at a time when ryots did not fully appreciate the benefits of irrigation, but conditions have changed since and there is no longer any need for it. The only advantage of consolidation is that the registered holder of a wet field is bound to pay the assessment thereon, whether he cultivates it or not, provided water was available. This advantage can be had even without consolidation by registering the lands as *bapat* wet, as is done in Godavari and Kistna. *Bapat* wet lands are dry lands for which the ryot desires a supply for the irrigation of a wet crop not for a single year only but from year to year, and his application is sanctioned. Lands so registered are liable to water-rate whether cultivated or not, provided water is available, until the ryot applies for a discontinuance of the supply which seldom happens. I would urge not only that there should be no consolidation in future, but also that the registry of all existing wet lands be altered from wet to dry at resettlement. More than 70 per cent of the irrigation revenue is from lands registered as wet, and unless their registry is altered, there will be little or no scope for the expansion of the irrigation revenue derived from them. I anticipate no legal difficulty in the matter. The right of a ryotwari landholder of land registered as wet is limited to a continuance of such supply as is sufficient for his accustomed requirements, and my proposal does not interfere with this right. Under the existing water-rate rules, Government may, at their pleasure and without rendering themselves liable to any compensation, discontinue supply to land registered as dry. This rule will require modification in respect of lands which have undergone a change of registry from wet to dry. There is also a provision in the Irrigation Bill that lands registered as dry which have been irrigated with wet crops continuously for a period of ten years acquire a right to supply. In some quarters it has been suggested that the difficulty created by the system of consolidation in regard to the free development of irrigation revenue may be obviated by the levy of special rates of wet assessment. This remedy, I submit, is objectionable as offending against the principles of settlement.

Mr. Srinivasachariar gave oral evidence as follows :—

The President. Q.—You are now Revenue Officer for the Mettur project?

A.—Yes.

Q.—You have been intimately connected with the Irrigation Bill and with questions of land revenue and water-rates as Under Secretary and Secretary in the Land Revenue Department?

A.—Yes: in fact, I drafted the Irrigation Bill.

Q.—You have also written a book on Irrigation Law?

A.—Yes.

Sir Percy Thompson. Q.—Could you tell us exactly what is meant by classing land as wet and dry?

A.—Yes. Where land is cultivated with wet crops—paddy is the principal wet crop in this province—the Settlement Officer fixes the outturn on the basis of paddy being grown, and determines the money value of it with reference to the commutation prices. The assessment is fixed on the basis of the money value after making certain deductions. The land as assessed is classed as wet in the revenue accounts.

Q.—What is a wet crop and what is a dry crop?

A.—Paddy is classed as a wet crop and *cholam* is an instance of a dry crop.

Q.—What is the difference between the two? Does it mean that the one can, and the other cannot, be grown without artificial irrigation?

A.—It is not a question of what is grown. For the purpose of settlement, lands are divided into two classes, dry and wet. Wet lands are those which are registered as wet. These are lands which are systematically and regularly irrigated from an irrigation source, and on which wet crops are raised. The assessment on these lands is consolidated. No separate charge for water is made. The standard wet crop in this province is paddy. The principal dry crop may vary. In some places it is *cholam*, in others *ragi* and in some others *cumbu*. In parts of Bellary, for example, it is a mixture of two or three crops.

The President. Q.—Before you proceed further, would you explain about garden crops in this Presidency? They are different from garden crops in other provinces?

A.—The word 'garden' here is not understood in the sense in which it seems to be understood in other provinces. The meaning of the word 'garden' varies from district to district. For example, in Godavari, a *dufusal* crop which stands on the ground for more than one year is classed as 'garden'. I do not mean to say it stands for more than twelve months. It is raised in one year and is allowed to stand on the ground in the subsequent year also.

Q.—The point about this is that on garden lands you can grow a wet crop by well-irrigation, but since we do not make any charge for the improvement, you would only pay a dry rate?

A.—In South Kanara and Malabar, these garden lands are treated more or less as wet lands and bear wet assessment. That is what I meant when I said that the practice was not uniform.

Q.—Over the greater part of the Presidency well-irrigation is treated as dry land?

A.—Yes.

Sir Percy Thompson. Q.—If you have land which has been wet for years and years, how do you estimate the dry assessment on that land?

A.—If it has been wet, it will be treated as wet land and wet rate of assessment will be levied.

Q.—But you say that in some cases water-rate is treated as the difference between the wet and dry assessment. If land has been wet for, say 10 years, how can you calculate what the dry assessment would be if the land were dry?

A.—In fact no attempt has been made in this province to calculate that. That is one of the objections raised to what is called the differential water-rate system. When dry land is irrigated and grows a wet crop, what is done is the officer takes the rate corresponding to the dry classification of the land. Lands are divided into *tarams*. Suppose a piece of dry land. *taram* 1, is assessed at Rs. 3 and wet land, *taram* 1, is assessed at Rs. 15. If this dry land is cultivated with a wet crop with the aid of Government water, the difference between Rs. 15 and Rs. 3, viz., Rs. 12, is charged as water-rate.

Q.—But as time goes by and as year after year he takes water and is assessed at Rs. 15, the tendency will be to forget that the land was dry land.

A.—Not necessarily. The old records give us the original dry rate and we know the subsequent increase due to revision. In fact, in this province we do not re-classify lands at resettlements. We only raise the assessment with reference to the increase in prices.

Dr. Paranjpye. Q.—If land grows rice merely with the help of rain, would you call it wet or dry?

A.—We have a third classification in this province, called *manavari*. It is not irrigated with Government water, nor with private water. It is water given by God. Under the system of half net produce, we impose a special rate for such lands, intermediate between the ordinary dry rate and the full wet rate.

Dr. Hyder. Q.—For such lands, do you charge water-rate?

A.—We charge a wet assessment, but not the full wet assessment. As I have already said, it is an intermediate rate: i.e., a little more than the dry rate and a little less than the wet rate. It is land revenue and not water-rate.

Q.—That can only come about in the case of swampy lands.

A.—Not necessarily: we have got some very good lands classed as *manavari* in this province.

Dr. Paranjpye. Q.—In South Kanara, for instance, you do not want irrigation for growing paddy. There is much rain there. What assessment do you charge there?

A.—We charge wet assessment. The supply from rain is also supplemented by periodical supplies from natural streams. In those tracts in Malabar and South Kanara, where the fields are not so supplemented, but are entirely dependent on rain, we charge *manavari* rates.

The President. Q.—As regards the existing arrangements, 70 per cent of the irrigation revenue is derived from wet assessment.

A.—Yes, from a consolidated wet assessment.

Q.—That, as pointed out in your statement, tends to become less and less proportionate to the advantages accruing from water owing to the smaller increase taken in the assessments of land revenue at the successive settlements.

A.—Yes.

Q.—Can you give us an idea of what sort of increases have been taken at the recent land revenue settlements?

A.—In South Arcot, where an increase of about 45 or 50 per cent would have been justified, Government only took 30 per cent in the case of wet lands. In the Tungabhadra, which is a very rich tract and which is considered superior to the Cauvery delta, the enhancement was only 25 per cent although a very much higher rate would have been justified. Recently, Government undertook to fix a maximum limit on these enhancements, and the limit which they have agreed to is 18¾ per cent. In Bellary, the resettlement rates have not yet been introduced and Government, instead of levying 25 per cent as already ordered, propose to levy only 18¾ per cent as against 30 per cent and 40 per cent, which they would be quite justified in imposing.

Q.—So that the return for the water has a continual tendency to be very much less under the system of the consolidated rate?

A.—Yes.

Q.—Then you mention two different systems of water-rate for lands that do not come under the consolidated rate. One is the differential rate which is in force in certain districts: is that in force over the greater part of the remaining area?

A.—It is in force in about eight or nine districts.

Q.—Government have given that up?

A.—Yes.

Q.—They are reverting to a system of fixed water-rate which is already in force in the remaining districts?

A.—Yes.

Q.—How does the low percentage affect permanently-settled areas as compared with ryotwari areas?

A.—The zamindari ryots pay about 20 per cent less than what the Government ryots pay.

Q.—The zamindari ryot not only pays very much less, but he gets Government water at lower rates?

A.—Yes, at more than a rupee less.

The Maharajadhiraja Bahadur of Burdwan. Q.—I understand you to say that in a zamindari the ryots get water direct from Government and Government charges water-rate from those ryots at a lesser rate than what they charge from Government's own ryots.

A.—Yes.

Q.—What is the reason for this difference?

A.—In the case of Government lands, under the differential water-rate system, the charge for water depends upon the wet assessment and dry assessment. In the case of zamindaris, the lands are not classified, and this system of differential water-rate cannot, therefore, be enforced in zamindaris.

Q.—Nevertheless, I take it that a ryot in a zamindari pays practically the same as a Government ryot.

A.—No. He pays less than what the Government ryot pays under the differential water-rate system.

Sir Percy Thompson. Q.—Is that intentional?

A.—It was not intentional. In the Kistna delta, which is one of the richest tracts, the original rate was Rs. 4. When the rate was raised to Rs. 5 there was a big commotion in the district. In fact the ryots wanted to non-co-operate, and it was with great difficulty that they could be brought round. This Rs. 5 rate was imposed about 40 years ago, and the Rs. 4 rate came into existence about 55 years ago. The rate was only raised by a single rupee about 40 years ago, and now when Government want to raise it by another rupee, there is any amount of opposition. Where both the zamindari ryot and the Government ryot pay water-rate under a common system, there is no difference. That is to say, where the fixed water-rate system is the only system in force, there is no difference between what the Government ryot and the zamindari ryot pay. On the other hand, where the differential water-rate system is in force, inasmuch as the zamindari lands are not classified and the differential water-rate system is not suited to such lands, the zamindari ryots and the Government ryots pay under two different systems. Under the differential water-rate system, the rate is much higher than under the fixed water-rate system. Water-rate is collected from the Government ryot under the differential water-rate system, whereas the zamindari ryot pays a fixed charge.

The Maharajadhiraja Bahadur of Burdwan. Q.—Suppose there is a canal called A and that B is the zamindari ryot and C the Government ryot. For a particular canal, where the water-rate is fixed, B, the zamindari ryot and C, the Government ryot, pay at the same rate?

A.—Yes.

Q.—It seems to me to be quite fair that anybody who gets water from this canal should pay the same rate. In the case of the differential water-rate, because a man happens to be a Government ryot, he is made to pay a different rate and you also say that the rate at which water is charged to the zamindari ryot is less than the rate the Government ryot has to pay. *Prima facie*, it strikes me that your water-rate system works more hardly on your ryots than it does on the zamindari ryots.

A.—It is not that it works hard on the Government ryot, but that it shows undue concession to the zamindari ryot. The concession is accidental; it is not intentional.

Q.—What is the reason for the zamindari ryot getting this concession?

A.—It is due to the system itself. As I have already stated, in the case of Government ryots, the charge represents the difference between the wet and dry assessment. When this system was first initiated, the average differential rate was probably equal to the fixed rate that the zamindari ryot was paying. But at each settlement the wet and dry assessments are raised, the wet assessment in a higher proportion than the dry assessment, with the result that the difference is also correspondingly raised, while the rate that the zamindari ryot pays remains more or less fixed.

Dr. Hyder. Q.—You say that the difference is equal to the wet assessment *minus* the dry assessment. How do you arrive at the wet assessment?

A.—The wet assessment is fixed at the settlement by the Settlement Officer.

Q.—What does he take account of?

A.—He takes into account the soil conditions, facility of immigration, etc., and various other factors.

Q.—Won't he do the same as regards dry lands? Wherein lies the difference then?

A.—In the case of dry lands there is no question of the facility of irrigation and the crop that is grown on wet land is different from the crop that is grown on the dry land. The dry land grows dry crops such as *cumbu*, *cholam*. The wet land grows principally paddy in this province. The assessment is based upon the outturn also.

Q.—Is not the position like this? You have already rice growing on land which gets no irrigation whatever. When Government starts a project and supplies water and makes the crop wet, then you assess the water-rate with reference to the rice already growing on lands to which water is not supplied. How do you get at your wet assessment?

A.—The assessment is fixed upon the value of the outturn of the staple produce. It varies in each district. In the case of wet land, rice is taken as the staple produce. So the outturn on each class of land is determined by means of the cropping experiment, and after making the usual deduction for vicissitudes of the season, cultivation expenses, etc., a proportion is taken as representing the Government share. That is the wet assessment. The crop that is taken as the standard is different, and in the case of wet lands the facilities for irrigation are also taken into account.

Q.—Are there any wet lands which get no irrigation whatever from Government sources?

A.—None, unless you think that *manavari* lands are wet lands. The principles of settlement are quite different in Malabar. In fact, in Malabar and South Kanara, no irrigation works are constructed by Government.

Q.—Are your differential rates equal to the outturn on your wet lands *minus* the outturn on your dry lands?

A.—No. It is the difference between the wet rate of land revenue assessment and the dry rate of land revenue assessment.

Sir Percy Thompson. Q.—Supposing your net assets per acre of land of a certain quality is, say, Rs. 10 as dry land and Rs. 40 as wet land; if the procedure at settlement is to take 25 per cent of the net assets, you will get the revenue assessment Rs. 2½ and Rs. 10 respectively. Your water-rate would be the difference between the two, viz., Rs. 7½?

A.—It will be 7½ under the differential water-rate system.

Q.—So that on this procedure you limit yourself to charging for water 25 per cent of the net increase in the value of the land due to the application of water?

A.—Yes.

The President. Q.—Is not the fallacy underlying the whole of the differential system that land which is in the first *taram* dry will also be in the first *taram* wet?

Dr. Hyder. Q.—Will you please in the first place define what a *taram* is?

A.—Lands in a village are classified according to the outturn, facilities for irrigation, means of communication and so on, and are divided into different groups. For each *taram* or group a separate rate of assessment is fixed. Similarly in the case of dry land, different *tarams* are fixed and for each *taram* a different rate of assessment is fixed.

Now a first *taram* dry land need not necessarily be a first *taram* wet land when irrigated.

Sir Percy Thompson. Q.—Why?

A.—Because there are some lands which do not take to irrigation very well. For instance, the black cotton soil is considered in these parts to be more suitable for dry cultivation than for wet cultivation; and simply because the black cotton soil happens to be a first *taram* dry, to say that if it is irrigated it must come under the first *taram* wet is certainly wrong. For purposes of this differential water-rate, that is assumed to be the case. It is on that ground that the system has been condemned by the Government. But the advocates of the system claim that it is very scientific, the opponents pointing out that the whole classification is wrong. If you want the differential rate to be correct, you must for each piece of land fix not only the dry assessment but also the corresponding *taram* when it is irrigated. If you do that, your system will be correct. Instead of doing that, you simply put arbitrarily dry land of the first *taram* in the first *taram* of the wet series and that is absolutely wrong.

The Maharajadhiraja Bahadur of Burdwan. Q.—But was not the system introduced by the Government itself? Is it not now in vogue?

A.—It is in vogue only in eight districts.

Q.—Has not the principle been accepted by the Government?

A.—It all depends upon the constitution of the Government. If the Government consist of members who advocate the system, it will be accepted as sound.

Q.—How long has this been in force?

A.—It was only seriously introduced in 1910-11.

The President. Q.—Would you explain to the Committee the whole process—what the *karnam* has to do and so on?

A.—The *karnam* has to calculate the water-rate on a piece of dry land. He takes the *diglot* register wherein the dry assessment is given, and then he has to find out the corresponding wet assessment. The difference between the wet and dry may be even in pies. He has to apply this to the exact area. All this involves a good deal of working and calculating.

Q.—It become an extremely complicated process.

A.—Yes.

Sir Percy Thompson. Q.—You say, "In this province about 70 per cent of irrigation revenue is from land which is classed as wet in the revenue accounts". Suppose you have dry land in the first *faram*. When you apply this consolidated rate, is it necessary to take it as first *faram* wet?

A.—This classification is made by the Settlement Officer, who tries to avoid all this. The whole trouble arises where, during the currency of the settlement, the dry land is irrigated and the revenue officer has to charge it water-rate.

Q.—It would be put right in the next settlement?

A.—Yes, if it has been continuously irrigated.

The President. Q.—At settlement, the wet or dry rate is fixed for each piece of land on its merits?

A.—Yes.

Q.—In the consolidated rate, the water is guaranteed?

A.—Yes.

Q.—The differential rate generally applies to lands outside the guaranteed areas?

A.—Yes.

Sir Percy Thompson. Q.—Suppose in any particular year you cannot give water?

A.—Ordinarily, there is no difficulty of giving water, especially under the more important deltaic systems.

The President. Q.—So you have got the consolidated rate for the guaranteed area, and for the land outside the guaranteed area you have two different systems—the differential rate and the fixed rate.

A.—Even in the case of guaranteed areas, there may be differential rate.

Q.—You say that the Government propose to abolish the differential rate and introduce the fixed rate which will vary with the source of supply and the crops on the ground?

A.—Yes.

Q.—You would go further than the Government and abolish the consolidated rate and make the fixed rate applicable in all cases?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—Do I understand that with the fixed rate all lands will be registered as dry?

The President. Q.—He would classify all lands as dry; and the charge for water would be taken separately. If it is under a precarious source of irrigation it will pay a lower rate.

One advantage you claim for the fixed rate system is that the rates can be revised according to expediency?

A.—Yes.

Q.—How often and on what data should the revision take place?

A.—I would revise the rates with reference to the increase in prices. In fact, there was a committee—the Water-Rates Committee—appointed to consider that system and they reported in favour of revising the rates at each resettlement.

Q.—You are proposing to abolish the consolidated wet rate altogether. Would you not advocate a periodical revision—say once in five years?

A.—Yes, if the prices would justify it, we might review the situation and revise the rates. I have no objection to that.

Q.—And you would not take the outlay, the interest on capital cost and the cost of maintenance into account, except for determining the minimum rates?

A.—Yes.

Q.—Your rates would be fixed by the Council?

A.—That is the idea underlying the Irrigation Bill. It is to be by means of a taxation Bill. Hitherto, it was by rules made under the Irrigation Cess Act.

Q.—Would you regard water-rate as taxation?

A.—Not wholly. It is partly taxation and partly a service payment.

Q.—You say, "The rate of water cess should be determined by the wants of the State, the maximum being the sum which the ryot is able to pay without discouragement to industry and improvement and the minimum the amount required to reimburse the expenses incurred in furnishing the water and the interest thereon".

A.—Yes.

Q.—Would you have uniform rates throughout the province?

A.—It may not be possible; for instance, a Bellary ryot may not be able to pay as much as a Kistna or Godavari ryot. You will have to begin with concessional rates in the backward districts.

Q.—You can have uniform rates in homogeneous areas.

A.—Yes.

Q.—And you think it is perfectly right that the more favourably situated area should pay for the less favourably situated area?

A.—Yes.

Q.—You consider the present rates very low?

A.—Yes; very low. In fact, I have stated that in the adjoining zamindari areas about four times these rates are being levied.

Sir Percy Thompson. Q.—You say that the more favourably situated areas should pay for the less favourably situated ones. Suppose you have an irrigation scheme and suppose you charge a rate of Rs. 5 per acre on it. Now you decide to take up another scheme to irrigate other lands and it won't pay you unless your rate is Rs. 15 per acre. Now will your suggestion come to this: that merely because you take up a less favourable scheme, you should raise the former rates also?

A.—Yes; if the ryot *can* pay more than Rs. 5, I should certainly raise the rate.

Q.—I don't see why one scheme should depend on the other.

A.—I take the whole irrigation scheme as one.

The President. Q.—Would you undertake schemes which will not pay their way?

A.—Sometimes they should be taken up as famine insurance works.

Sir Percy Thompson. Q.—Suppose there is a scheme and at the rate of Rs. 5 per acre, it pays very handsomely; and you undertake another scheme which will pay only if you charge Rs. 15 and the ryots are willing to pay Rs. 15. Would you charge this at Rs. 15 and leave the other at Rs. 5?

A.—Yes, for the time being—till the time comes for periodical revision. Then, if I find that Rs. 5 is a low rate for that tract, I should raise it irrespective of my other demands or wants, because I find the ryot is able to pay more.

Dr. Paranjpye. Q.—In order to avoid this raising of the rates in one part in order to pay for the loss in another, is it not much better to charge the utmost that you can get in each case? Any surplus obtained in this way might be used for the advance of irrigation in other parts.

A.—Yes.

The President. Q.—Will you please explain what you mean by the terms '*mamul* wet' and '*bapat* wet'?

A.—'*Mamul* wet' is old wet under private sources which have been intercepted by Government irrigation works. That is, lands which were originally irrigated from private sources but have subsequently been intercepted by the Government works. Suppose there is a zamindari tank and Government construct a canal which runs through it, the Government making it practically its own. Now in regard to the land formerly irrigated from the zamindari tank, Government water is allowed free and that land is known as '*mamul* wet'.

'*Bapat* wet' is dry land, either Government or zamindari. With a view to avoid the trouble of having an annual inspection whenever a ryot applies for water for his field, and the water application is sanctioned by the Government and the ryot raises a wet crop, the extent so cultivated is registered in the accounts as *bapat* wet. Provided the water is available, he is required to pay whether he uses the water or not. Of course, he can at any time ask the Government to stop the supply. But till then he will have to pay the proper wet rate due for a wet crop, unless there has been a scarcity of water.

Q.—He practically has a guarantee of water?

A.—Yes.

Q.—You have been making a charge for inclusion in the *ayacut*?

A.—Yes.

Q.—And would you advocate a betterment tax?

A.—Not in a lump sum. I would prefer to merge it in the annual charge.

Q.—Would you not make it a terminable annuity?

A.—No; I will make it a permanent charge.

Sir Percy Thompson. Q.—You do get the equivalent of a betterment tax at resettlement?

A.—We have to deal not only with the Government lands but also with zamindari lands.

Q.—The increase at settlement is very strictly limited by the 18¾ per cent rule?

A.—Yes. In the first place, the Government don't take the full half and recently this further restriction has been imposed.

The President. Q.—Under your proposal to abolish the consolidated wet rate you will have to give a right to irrigation.

A.—In fact they get it under the Bill automatically.

Sir Percy Thompson. Q.—Has your suggestion to abolish the consolidated rates been dealt with in the Bill?

A.—There is nothing there about the rates. The proper place will be in the Land Revenue Settlement Bill.

The President. Q.—Only at present there is nothing compelling the Settlement Officer to settle the irrigated land as consolidated wet?

A.—No.

Q.—And if irrigation is introduced during the period of the settlement, you charge dry rate *plus water-rate*?

A.—Yes.

Q.—With regard to the Mettur project, you cannot make it pay its way if you charge less than Rs. 15 per acre as water-rate?

A.—Yes, whereas the standard water-rate is only Rs. 4.

Q.—If you impose a consolidated wet rate, you cannot make it up?

A.—No. That is why it is proposed to keep the land as dry and make the ryots pay a separate rate of Rs. 15.

Q.—Even at Rs. 15 they will take the water?

A.—Yes. If they get water, they are bound to pay under the Act.

Dr. Paranjpye. Q.—Under the Bill no charge is to be made for percolation. If a person does not take water for his land, while people owning lands around it take water, he will get the benefit of the water by percolation; or he may sink a well in his field and he can get water.

A.—There is no objection now to sinking a well. The question of percolation is under the consideration of the Government. I know that this exemption is going to land us in difficulties and the question is being very seriously considered by the Government.

The President. Q.—In the Punjab certain principles have been laid down with regard to irrigation. The first is that the irrigation enterprises should be treated as a whole.

A.—I am in favour of that.

Q.—The second is that the rates should be uniform.

A.—I do not think that will be possible, except in homogeneous areas.

Q.—The third is that the supply of water should be so regulated that each man should get enough for an average rotation of crops.

A.—I do not know what it means. But in this province there are some vested rights to be respected.

Q.—Is there not enormous waste of water?

A.—Yes, there is. But the courts have given various decisions as regards the rights of the ryotwari holders and we are bound to give water sufficient for their 'accustomed requirements'. The phrase 'accustomed requirements' is very wide. If he is accustomed to waste water, he may claim he is entitled to get it.

Q.—Don't you take the opinion of agricultural experts?

A.—But the tenant will not have any difficulty in getting another expert to say that it is absolutely necessary. We are trying to take some power to control supplies.

Q.—The next principle is that the charge should vary with the crop.

A.—In this province the charge does vary with the crop.

Dr. Paranjpye. Q.—Suppose you can grow either rice or sugar-cane on a particular piece of land and both require the same amount of water. Now growing sugar-cane is far more profitable than growing rice. Do you charge the two crops at different rates on this ground?

A.—No, I would not do that. I will take the land as a whole. I will take what additional value land has acquired by the application of water and take that into account when fixing the rate. This year he may grow sugar-cane. If I ask him to pay higher rate this year, next year if he leaves the land fallow he may claim that we are not entitled to charge anything.

Dr. Paranjpye. Q.—Irrespective of any use that he makes of the water?

A.—That is practically introducing the volumetric system.

Q.—Why do not you depute one of your officers to study that system?

A.—It has been already condemned. You will find it in Mr. Leach's report.

The President. Q.—You could not possibly work it here?

A.—No, Sir, we cannot. There are practical difficulties. Mr. Leach has also dealt with that question. Mr. Galletti is in favour of it. Among the engineers themselves there seems to be a difference of opinion. The final conclusion arrived at was that in this province it will be a failure.

Q.—Has it been tried?

A.—It has not been tried. The Chief Minister has promised to try it in one particular channel. No serious attempt has so far been made.

Q.—Who manage the supplies from the particular channels?

A.—There are informal panchayats, not statutory bodies.

Q.—Do you know of tank panchayats in Mysore?

A.—No.

Q.—You have some panchayats here?

A.—Yes.

Dr. Paranjpye. Q.—In Mysore there are local bodies.

A.—The Irrigation Bill does provide for them here.

The President. Q.—I have a recollection of a panchayat at Tinnevelly which distributed water to an area by auction.

A.—I am not aware of any such case. I know they are exercising control over distribution. But the actual collection is made by the Government.

Dr. Hyder. Q.—Is it a fact that the depressed classes come up to the district officers and ask them to give water as the panchayats would not give them water?

A.—I have no knowledge of it.

Q.—Have they protested to you?

A.—So far as my knowledge goes there has been no protest.

Q.—Are they for the system of panchayat or are they against it?

A.—If it is a panchayat in which they have confidence they won't object. It all depends upon the constitution of the panchayat. If it is a factious village where depressed classes are oppressed by higher classes, I suppose there will be trouble.

Sir Percy Thompson. Q.—Do you agree with or dissent from the firt two?

A.—I do not know. There are some places where they are treated properly.

Sir Percy Thompson. Q.—Do you agree with or dissent from the first two principles? I gathered that you dissented from both and would treat each project separately. What do you mean by 'treating the system as a whole'?

A.—As I have already explained, there are certain very excellent systems in which very low rates are being levied at present. In the Godavari delta Rs. 5 is the rate that is levied now. In Kistna the same rate is being levied. I know personally that the ryot can afford to pay three or four times the rate. There has recently been a hue and cry for undertaking some irrigation works in the backward districts of Bellary and Anantapur. People there are very poor and cannot afford to pay the rates required to make the projects productive. My point is: raise the rates in Godavari to a fair level. Get the surplus from there and utilise it for the backward districts.

Q.—Would you raise the Rs. 5 rate on the sheer merits of that scheme and not on the demerits of some other scheme?

A.—I would use it for the benefit of other schemes.

Q.—Then you are not treating the schemes as a whole.

Dr. Hyder. Q.—Do you think the ryots will pay Rs. 15 per acre in the Mettur scheme?

A.—The ryots can afford to pay Rs. 15. The Board and the Collector don't anticipate any difficulty. I think they can reasonably pay, because it is not simply the cost of the project that is taken into account but also the actual condition of the ryot.

Q.—Then you have no programme of schemes. If I understand you aright, in reply to Sir Percy Thompson, you said that you would utilise the surplus for other schemes. You admit that people here have had to wait until they were able to pay Rs. 15?

A.—We have not waited on that account. In fact, it is the correspondence with the Government of India and the Secretary of State and some controversy with the Mysore Government that has been responsible for the delay in executing the scheme.

Dr. Paranjpye. Q.—Is there a great field for the extension of irrigation?

A.—By means of storage and reservoir schemes.

Q.—Will they be able to pay?

A.—When it is profitable for the ryots to pay they will pay. There may be the will to pay; but there is the question of means also. For example, in the Agency where the inhabitants are aboriginal tribes and are not sufficiently advanced in agriculture, we cannot expect them to pay the same rates as in the plains.

Mr. R. SUBBIAH NAIDU, Proprietor, Messrs. S. Miller & Co., Cigar Manufacturers, Dindigul, representing the Cigar Manufacturers of Dindigul and Trichinopoly, was next examined.

Written memorandum of Mr. Subbiah Naidu.

Protection of home industry.—The cigar industry in India has been in existence on a large scale for more than a century, giving employment to several thousands of hands. Dindigul and Trichinopoly are the only centres of cigar factories in the whole of India, excepting Madras, where there is only one factory. This big Indian industry supporting many lives requires protection by the Government as a "home industry", as various Governments are supporting their home industries.

1. *Prohibitive import duty on foreign-made cigars and cigarettes.*—In some of the British Dominions and Colonies and in almost all foreign countries as well, the import duty is so prohibitive as to effectually prevent import of any Indian cigars into those countries. Hence, the import duty in India on the foreign cigars, cigarettes and manufactured tobacco must be levied at the specific duty of Rs. 7-8-0 per lb. net weight, as the present system of *ad valorem* duty does not produce the revenue proportionate to the value of the shipments of cigars, cigarettes and manufactured tobacco imported into British India.

2. *The countervailing excise duty.*—May be levied on cigarettes and manufactured tobacco produced by machinery in British India, just as the excise duty is levied on the Indian mill-made clothes. This excise duty will not only yield extra revenue, but also will protect the home industry of hand-made cigars and cigarettes.

3. *Import duty on raw tobacco to be withdrawn.*—As a general rule, almost all the raw products, which are imported into a country for manufacturing purposes, are allowed free of duty. Therefore, the *import duty* on raw tobacco wrapper leaves, which are imported into India, for the wrappers on cigars, at Re. 1 per lb., should be withdrawn, or at least some reduction in the same duty may be made, as no Indian-grown tobacco wrappers for cigars are available. For instance, in the Dominion of Canada, the unmanufactured tobacco is allowed "free" of duty.

Below, the rates of import duty in some of the British and foreign countries on cigars, cigarettes and unmanufactured tobacco are given for the guidance of the Taxation Committee, for the sake of their comparison with the present import duty on cigars, cigarettes and unmanufactured tobacco in British India:—

(1) United Kingdom—

Cigars at £0-15-7 per lb.
Cigarettes at £0-12-7 per lb.
Unmanufactured and unstemmed tobacco at £0-8-2 per lb.

(2) British South Africa—

Cigars and cigarillos at £0-8-6 per lb., and in addition 15 per cent *ad valorem*.
Cigarettes at £0-6-0 per lb., and 15 per cent *ad valorem*.
Unmanufactured tobacco at £0-3-6 per lb.

(3) The Commonwealth of Australia—

Cigars at £0-13-0 per lb.
Cigarettes at £0-12-0 per lb.
Raw tobacco at £0-2-6 per lb.

(4) The United States of America—

Cigars, cigarettes and cheroots of all kinds $ 4.50 per lb. and 25 per cent *ad valorem*.

Wrapper tobacco and filler tobacco, when mixed or packed with more than 35 per cent of wrapper tobacco, if unstemmed at $ 2.10 per lb.

(5) The Dominion of Canada—

Unmanufactured tobacco "Free".
Cigars at $ 3.90 per lb. and 25 per cent *ad valorem*.
Cigarettes at $ 4.70 per lb. and 25 per cent *ad valorem*.

Mr. Subbiah Naidu gave oral evidence as follows :—

The witness.—The cigar industry in India has been in existence on a large scale for more than a century, giving employment to several thousands of hands. Dindigul and Trichinopoly are the only centres of cigar factories in the whole of India, excepting Madras, where there is only one factory.

Dr. Paranjpye. Q.—Is it not a cottage industry?

A.—It is more or less a cottage industry. The large factories are those of Spencers, Oakes and McDowells. This big Indian industry supporting many lives requires protection by the Government as a home industry as various Governments are supporting their home industries.

Q.—Is there any tax on Indian-made cigars?

A.—No; but we pay an import duty on wrappers. We must have Sumatra tobacco as wrappers for our cigars. I have given some of the duties in the different countries. From that you will find that the duty on imported cigars in India is not so much and not sufficiently prohibitive as to support the home industry.

Q.—In one thousand cigars which you manufacture what amount of imported material would you require?

A.—1½ lb. of Sumatra tobacco. For high-class brands we use about 3 lb. of Havana fillers.

Q.—For ordinary cigars?

A.—1 to 1½ lb.

Q.—How much Indian tobacco do you use for it?

A.—It will be 15 to 25 lb.

Q.—How much would 1,000 cigars weigh?

A.—It depends upon the size: from 5 to 20 lb.

Q.—Let us have it as 10 lb. For manufacturing this you want 1¼ lb. of imported tobacco?

A.—Yes, on the average.

Q.—How much import duty have you got to pay on that?

A.—Rs. 1-4-0.

Q.—*Ad valorem*?

A.—On weight. Even if we import four pence worth of stuff we will have to pay Re. 1 duty. The duty is Re. 1 per lb.

Q.—What is the rate of import duty on foreign cigars?

A.—I think they are paying 75 per cent *ad valorem*.

Q.—What is the cost of the same brand of foreign cigars?

A.—The average price would be Rs. 30 and the duty on that comes to Rs. 22-8-0.

Q.—So that for an import duty of Rs. 22-8-0 that they pay, you manufacture the same brand after paying an import duty of Rs. 1-4-0.

A.—Yes.

Q.—So that from the point of view of import duty you have an advantage of at least Rs. 20?

A.—Yes.

Q.—With that advantage can you not compete with foreign competitors?

A.—It is impossible. People here don't value Indian goods. They like foreign cigars very much.

Q.—Then no amount of cheapness of Indian cigars would enable you to compete with foreign cigars?

A.—The masses might smoke them instead of foreign cigarettes.

Q.—I do not understand your proposition. Even if you have a higher duty you cannot compete?

A.—In that case we can introduce foreign fillers to bring our quality up to the imported standard.

Q.—You say you would import raw products from outside and manufacture here?

A.—We have been importing only fillers and wrappers.

Q.—How would a higher duty improve your position?

A.—We could then very easily compete with foreign cigars as people won't go in then for foreign cigars.

Q.—In that case you might have to pay Rs. 5 in duty. You still have an advantage of Rs. 15 per 1,000 cigars.

A.—People like only foreign cigars.

Q.—You confuse the issues. People either do like foreign cigars or they do not. If they like foreign cigars, they will buy them whatever the quality of your cigars may be.

A.—If the price is prohibitive they must come to the Indian manufactured goods. Unless you prohibit foreign cigars we cannot compete. In some of the British Dominions and Colonies and in almost all foreign countries as well, the import duty is so prohibitive as effectually to prevent import of any Indian cigars into those countries. Before the War we were making large shipments to the United States of America, Australia and Egypt. Now hardly any shipment goes. The buyers complain that duty has become very high. Moreover the weight of the Indian tobacco is heavy. If the weight of the foreign-made tobacco is 10 lb., the weight of the Indian-made tobacco is 15 lb. So people go only for foreign cigars. On account of the latest enhancement they don't go in for our cigars at all. Hence the import duty in India on the foreign cigars, cigarettes and manufactured tobacco must be levied at the specific duty of Rs. 7-8-0 per pound net weight, as the present system of *ad valorem* duty does not produce the revenue proportionate to the value of the shipments of cigars, cigarettes and manufactured tobacco imported into British India. A countervailing excise duty may be levied on cigarettes and manufactured tobacco produced by machinery in British India, just as the excise duty is levied on the Indian mill-made cloth. This excise duty will not only yield extra revenue, but also will protect the home industry of hand-made cigars and cigarettes. As a general rule, almost all the raw products, which are imported into a country for manufacturing purposes, are allowed free of duty. Therefore, the import duty on raw tobacco, wrapper leaves, which are imported into India for the wrappers on cigars, at Re 1 per lb., should be withdrawn, or at least some reduction in the duty may be made, as no Indian-grown tobacco wrappers for cigars are available. For instance, in the Dominion of Canada, unmanufactured tobacco is allowed free of duty. The rates of import duty in some British and foreign countries on cigars, cigarettes and unmanufactured tobacco are given for the guidance of the Taxation Committee, for the sake of their comparison with the present import duty on cigars, cigarettes and unmanufactured tobacco in British India:

United Kingdom: cigars at £0-15-7 per lb.; cigarettes at £0-12-7 per lb.; unmanufactured and unstemmed tobacco at £0-8-2 per lb.

British South Africa: cigars and cigarillos at £0-8-6 per lb., and in addition 15 per cent *ad valorem;* cigarettes at £0-6-0 per lb. and 15 per cent *ad valorem;* unmanufactured tobacco at £0-3-6 per lb.

The Commonwealth of Australia: cigars at £0-13-0 per lb.; cigarettes at £0-12-0 per lb.; raw tobacco at £0-2-6 per lb.

The United States of America: cigars, cigarettes and cheroots of all kinds $ 4.50 per lb., and 25 per cent *ad valorem.*

The President. Q.—You would like the unmanufactured tobacco admitted free and machine-made cigars and cigarettes taxed?

A.—There are no machine-made cigars in India.

Dr. Paranjpye. Q.—In South Africa they charge unmanufactured tobacco 2 shillings to 3 shillings per lb.

A.—Yes.

Q.—In India the duty is even less?

A.—Re. 1 per lb.

Q.—In other countries the duty is higher than in India.

A.—Because those countries contain rich people.

Sir Percy Thompson. Q.—You quote the rates in the United Kingdom. There is no protection there at all.

A.—Because there is no tobacco grown in the United Kingdom. All must be imported.

Q.—I suggest that there is no differential duty on cigars and unmanufactured tobacco in the United Kingdom. Much of the unmanufactured tobacco is wasted in manufacture. The duty of 8*s.* 2*d.* per pound on unmanufactured tobacco is meant to be the equivalent of that of 15*s.* 7*d.* on cigars?

A.—Yes.

Dr. Paranjpye. Q.—How can we get any further money from taxation of tobacco? Have you got any proposals except this?

A.—It is the only proposal I have. I do not see any other way of taxing tobacco.

Q.—What do you think of charging an acreage duty on the cultivation of tobacco?

A.—If you charge that, the tobacco-growing people will entirely discontinue the crop. Even for the last three or four years many tobacco fields have been converted to the growing of cotton, because cotton is selling at higher prices. Moreover, tobacco requires plenty of water, whereas cotton does not require much water. Therefore, some of the tobacco fields have been converted into cotton fields.

Q.—What do you say about licensing the shops for selling tobacco or cigars or cigarettes?

A.—I don't think it is practicable, but there is such a system, I think, in Bombay. In cities like Madras and in large cities, that can be introduced.

Q.—Why can't you introduce it in villages?

A.—In villages there are no shops which sell only cigars.

Q.—Not only cigars, but all kinds of tobacco?

A.—That will inconvenience the poor people. In these parts at least, tobacco is a thing which is necessarily required for chewing purposes.

Q.—Supposing you sell by auction the right to sell tobacco over a taluk, all kinds of tobacco?

A.—In my view the Government will not be able to control that business.

Q.—Just as you sell liquors, similarly you can sell the right of selling tobacco.

A.—That will not suit this trade.

Q.—Why not?

A.—Because it will be impossible to prevent smuggling.

Q.—We are not going to trouble with smuggling at all; the licensee would look to it.

A.—But there are so many people relying upon this industry; they will all be thrown out of work. Not only that, poor people will also be put to difficulty. When the license system is introduced, the tobacco which is selling for one pie might be sold even for one anna. So I cannot in any way recommend it.

Messrs. T. M. ROSS, W. R. T. MACKAY and GRAHAM ROSS were next examined on behalf of the Chamber of Commerce, Madras.

Written memorandum of the Chamber of Commerce, Madras.

Q. 13.—The Madras Chamber has always opposed Government commercial or semi-commercial undertakings as offering unfair competition to private enterprise. Any Government undertaking, however, which does not compete unfairly with private traders should be worked to show a commercial return. The Chamber is also not opposed to a monopoly profit when same is available.

Q. 14.—In the opinion of the Chamber, there is a certain element of taxation in the revenue derived from any concern which shows a surplus on its working.

Qs. 15 and 16.—In general principles the Chamber would advocate that each irrigation scheme should aim at giving a fair commerical return, and with the exception of selling water to the highest bidder, which is wrong in principle, it would appear to be immaterial which of the other methods mentioned is adopted.

Q. 18.—In the opinion of the Chamber, the dues levied under the Indian Ports Act and dues levied under the Port Trust and similar Acts are for services rendered and do not fall within the category of taxes imposed on the general tax-payer.

Q. 21.—In estimating the burden upon the tax-payer, the Chamber cannot see that any object would be served by regarding indirect taxation as voluntary and excluding it on that ground.

Q. 23.—The Chamber agrees with the statement attached to this question and is in favour of heavy taxation on all luxuries.

Q. 24.—The Chamber does not favour a tax on entertainments, as it considers that, so far as this Presidency is concerned, the revenue would be negligible. The Chamber is also opposed to a tax on railway tickets as an unnecessary burden on transport.

Qs. 27, 28 and 29.—The Chamber is of opinion that every member of the community should pay a tax of some sort. It also considers taxation a proper accompaniment of representation and that the taxation should be indirect.

Q. 33.—In the event of a substitute being required for other taxation that is abolished, the Chamber would not favour an increase in the rates of income-tax, as it is considered that the present rates are sufficiently high. The Chamber would prefer that any taxation abolished is made good by indirect taxation.

Qs. 34, 35 and 36.—In the opinion of the Chamber, the present scheme of graduation is satisfactory, and it does not favour any differentiation in favour of earned income or of sums shown to have been invested in productive enterprises. The Chamber is further of opinion that it would be impracticable to make allowances for the number of persons supported out of particular incomes, as accurate data would be impossible to obtain.

Q. 37.—As the Indian super-tax on companies was imposed as a War measure and approximates to the corporation tax in England, which has now been abolished, the Chamber is of opinion that early steps should be taken to discontinue the Indian companies' super-tax. In the opinion of the Chamber, the commercial and industrial development of the country can best be carried out by companies formed under the Indian Companies Act, 1913, and any taxation which directly falls on companies is considered to be inequitable, in view of the fact that private competing firms are exempt. In the opinion of the Chamber, nothing should be done to discourage the formation of indigenous limited companies.

Q. 40.—The Chamber considers that the exemption limit should be fixed as low as practicable, and it is for Government to consider whether

a reduction to, say, Rs. 1,500 would bring in an increase commensurate with the cost of collection.

Q. 41.—There probably is a certain amount of dishonesty in connection with income-tax returns, but the Chamber has no definite information, and it is generally accepted that the new income-tax department has resulted in the exercise of a much more efficient control and a more correct assessment of incomes.

Q. 42.—The Chamber would not object to a standard form for trading accounts, if one workable in practice could be devised. It is not considered that any great difficulty would be met with in the case of merchants and traders, but it would be more difficult in the case of manufacturing concerns.

Q. 43.—The Chamber strongly opposes any publicity in income-tax returns, and considers that the present powers under the Act are sufficient to deal with any form of dishonesty.

Q. 44.—The issue of tax-free securities was essentially a War measure designed to attract investors, and in the opinion of the Chamber, there is no reason why further issues of tax-free securities should be made.

Q. 45.—In the opinion of the Chamber, income-tax could be deducted at time of payment of a dividend on bearer securities.

Q. 46.—The Chamber does not consider that any alteration is necessary in the present provisions of the law relating to double taxation and the exemption from taxation of incomes derived from outside India.

Q. 47.—The Chamber would prefer assessment on the three years' average as being more equitable than on the previous years' income. It is essential in the opinion of the Chamber that greater latitude should be allowed for setting off trading losses and this can best be secured by adopting the three years' average.

Qs. 51, 52 and 53.—The Chamber is generally in agreement with the extract attached to this question and is of opinion that a tax on salt is in every respect an ideal one for India. The Chamber would also favour an increase in the existing salt tax as it considers that such an increase would impose no undue burden on the community.

Qs. 61 and 62.—The Chamber would not favour the adoption by Government of a policy of total prohibition as it considers its enforcement would be impracticable. The Chamber is however in favour of heavy taxation on liquors, drugs and tobacco. In the event of a substitute being required for other taxation that is abolished, the Chamber would not object to increased duties on sugar with possibly a small excise on indigenous sugar. In the opinion of the Chamber, the consumption of sugar is largely a luxury and is comparable to some extent with the use of stimulants in the form of alcohol, etc.

Q. 78.—The Chamber is of opinion that a tariff imposed for revenue purposes should apply to all imports and should not be confined to a few selected articles in common use.

Q. 80.—In the opinion of the Chamber, increased rates of duty might with advantage be imposed on certain articles of luxury, viz., liquors, perfumery, drugs, etc.

Q. 82.—This Chamber has persistently advocated an export duty on raw hides and skins and considers that the present rate might be enhanced without injury to the export trade of the country.

Q. 83.—On general broad lines the Chamber would prefer specific duties to *ad valorem* duties.

Qs. 84 and 85.—The Chamber considers that the present system of tariff valuations works satisfactorily and has no criticisms to offer on the present system of appraisement.

Q. 137.—The Chamber agrees that duties on inheritance or succession should be among the first to be considered in the event of new sources of taxation being required to replace old sources. At present, a difficulty exists in applying taxation of this nature in connection with Hindu undivided familes, but if legislation is undertaken, the tax, in the opinion of the Chamber, should apply only to the share of the deceased member of a joint family.

Messrs. Ross, Mackay and Graham Ross gave oral evidence as follows :—

The President. Q.—May we know whether the views you put forward are those of the Chamber of Commerce or your own personal views?

A.—They are the views of the Chamber of Commerce.

Dr. Hyder. Q.—In connection with your answer to Q. 13, I ask you whether you think irrigation ought to be undertaken by Government or by a commercial body?

A.—It ought to be undertaken by Government.

Q.—You don't think it is a commercial or semi-commercial undertaking?

A.—It is a semi-commercial undertaking from the Government point of view but not from ours.

The President. Q.—On Qs. 15 and 16, would you treat the irrigation enterprise as a whole and apply the surplus of the more favourable schemes to the less favourable ones?

A.—I think you must treat it as a whole and get rather above the fair commercial return on them.

Q.—Would you have uniform rates in homogeneous areas?

A.—I would not have uniform rates. I think one scheme would give a much better return than another.

Q.—Would you base your rate on what the scheme costs you or on what the man can pay?

A.—I think, generally speaking, you would have to vary the rate in the initial stages. In certain cases irrigation schemes will have to bring lands under cultivation which were not fertile before, and perhaps would not pay at first. Therefore you will have to be prepared to accept rather a less return on new irrigation schemes compared with the other irrigation schemes of long standing. As the lands reach the same level of fertility, you would level up the rates.

Sir Percy Thompson. Q.—Supposing you have a very favourable scheme which gives a good return and you charge Rs. 5 an acre per annum on it. Then you have another unfavourable scheme which is much more expensive and in order to pay its way you have to charge Rs. 15 an acre and still the people there think it is not too high to pay having regard to the benefits received by them. In that case Rs. 5 on the first scheme is ridiculously small and the people would be willing to pay Rs. 15. Having charged Rs. 5 on the first scheme, will you keep it unaltered or split the difference and charge both Rs. 10?

A.—No I don't approve that. I would prefer that Government aim at, say, a return of 8 per cent on all the irrigation schemes. I am not quite sure what percentage you have now on the capital invested but I think 8 per cent a fairly moderate return.

Q.—My point is this. Supposing you have a certain number of schemes in existence with Rs. 5 an acre and you get what you aim at, 8 per cent or so. Then comes the question of the initiation of other schemes which are going to be more expensive and costly. Are you going to get the money from the scheme itself or from the Rs. 5 people?

A.—Quite so. If you have land which is going to be brought under cultivation and which is going to cost Rs. 15 an acre, I do not see why the man who is able to bring his land under irrigation for Rs. 5 should be made to suffer.

Q.—In the first instance, you ought never to have charged Rs. 5, but you should have charged Rs. 15 to start with.

A.—Rs. 5 would probably be not a very low charge in the initial stages of that scheme.

Q.—May we assume that it was Rs. 5 an acre and that Rs. 5 would pay the Government very handsomely and give 8 per cent or so? Now then the Government goes in for far more difficult schemes which exceed the cost of the other schemes and which require much more

capital. Would the Government go to the five rupees people and say: "Look here we are going in for very expensive schemes in other parts of the province and you have been paying only till now Rs. 5, will you contribute something towards the other schemes?" Are they justified in asking this?

A.—I think myself that each scheme ought to stand on its own.

The President. Q.—When you say that each scheme ought to stand on its own, you would see that each is making a good proportion of profits?

A.—Yes, but not necessarily in the initial stages.

Dr. Paranjpye. Q.—As the costlier schemes are taken in hand, you will find public opinion being created against you?

A.—Yes, but I think it is a good business principle to take the easy schemes first.

Q.—As long as you do that and for instance supply the needs of two districts, you will find those two districts would always be against the other new schemes.

A.—Not if each scheme is considered individually.

Q.—That would mean the Irrigation Department would not devolop. After all only few schemes would pay well.

A.—Our aim should be to get the maximum return out of the irrigation schemes individually. Further land in one part may naturally be more fertile than in another part.

Q.—Would it not be better to have the accounts for each irrigation scheme absolutely separately? If you have separate accounts it may be easier, but if you merge all the income from the irrigation schemes into the general revenues, the difficulty would be greater.

A.—Yes.

Dr. Hyder. Q.—As business men you know that if you have different departments in one business some of them might pay well and some might not pay, but still you carry them on because they are necessary for other departments. Why should you say that in the case of irrigation, each must be judged on its merits and not on the whole? After all, the funds are the same.

A.—If one department does not pay, you cannot keep it on. You will have to close it down.

Q.—Not necessarily. You may be quite sure that this particular department will pay in the end but in the immediate future it may not be paying. Therefore are you going to close down the business entirely?

A.—Yes. We treat each department separately, and when it is established that a particular department does not pay we would certainly close it down.

Q.—Is there no such thing as development of one line of business? Would you not apply that principle to Governmental undertakings?

A.—I do not quite understand your point. I do not quite see why each irrigation scheme should not be treated separately just as you treat each department separately. If a merchant firm is controlling two cotton mills there will be one cotton mill department, but each mill will be run separately.

Q.—You may have other mills also.

A.—It may be so, but still we take the business as a whole and the returns of each mill would be kept separate.

Q.—There is no such thing as commercial development in your business? Suppose a certain business is dull and there is no market for it now, will you not wait and see whether it develops or not?

A.—If you have had any indications of a business developing, we would certainly wait and see, but not for an indefinite time. If in the long run it does not pay, we would close it down.

The Maharajadhiraja Bahadur of Burdwan. Q.—You would not screw up the rates of one scheme so as to feed another. You would treat each individual scheme on its merits?

A.—Yes.

Q.—Suppose in A scheme the water-rate is Rs. 5 and in B scheme which is a new scheme the water-rate is Rs. 15, you would not, of course, object to the A scheme which might be a long-standing project giving from Rs. 5 to Rs. 7 but you would not put the rates up simply for the sake of B scheme.

A.—From the Government point of view you might possibly have to, but on general principle I would not allow one project to pay for another.

The President. Q.—What we have to do is to determine the burden of taxation on particular classes of people. Supposing you tax tobacco, you would not consider it as voluntary and as such exclude it?

A.—No.

Dr. Hyder. Q.—You would not favour a tax on entertainments?

A.—I am personally of opinion that a tax on entertainments will not yield any substantial revenue and would be negligible. At least in Madras it will yield nothing.

Q.—A tax on railway tickets you would not favour?

A.—No.

The Maharajadhiraja Bahadur of Burdwan. Q.—You do not favour an entertainment tax?

A.—Not in the Madras Presidency.

Q.—Supposing it was brought in, don't you think that it will be safer to have it in the hands of the Local Government rather than of the local bodies?

A.—I think it would be administered more fairly by the Local Government, and there will be a better chance of the tax being collected in a fairer way. If such a tax is imposed I would favour it being in the hands of the Local Government.

Dr. Paranjpye. Q.—What is your reason to think that it would not be worth while to impose such a tax? Are there not cinemas and theatres in Madras?

A.—There are some cinemas and I think there are four theatres. I should imagine that the scale of fees for admission is such that any tax imposed in addition to the present charge will be resented. The charges now vary between four annas and three rupees. I doubt if it would stand a further charge.

Q.—What about the race-course?

A.—It is already paying very heavy income-tax, and also pays heavily in the amount of labour employed.

Q.—In other places like Bombay and Calcutta racing is taxed.

A.—In Bombay and Calcutta they are dealing in very much larger sums than we are in Madras.

The Maharajadhiraja Bahadur of Burdwan. Q.—Your races are mostly in Guindy, but not in the Madras City.

A.—Yes.

The President. Q.—You say the race-course pays an income-tax, is it very much?

A.—I say comparatively large sums.

Dr. Paranjpye. Q.—What is the proportion of the totalizator receipts?

A.—It is very little.

The President. Q.—Is there not actually a Bill before the Madras Council to impose a tax on entertainments?

A.—I think so.

Q.—You do not approve of the principles?

A.—No.

Dr. Hyder. Q.—With regard to terminal tax, you do not favour a tax on passengers?

A.—No.

Q.—What is your view about taxation on goods?

A—As far as I know, I do not think there is any necessity for it. The railway rates for goods are at a fairly high level and any further tax might interfere with the free movement of goods. I think there is a danger of that in the imposition of a terminal tax.

The President. Q.—There is a good deal of terminal tax in other parts of India.

A.—I think so in Bombay.

Q.—Then you object to its introduction here?

A.—Yes.

Q.—I think there is a terminal tax on timber.

A.—Yes.

Q.—Do you think it affects the trade very much?

A.—No. It does not make much difference.

Q.—Madras has probably an alternative tax in tolls. Do you propose to have any further taxation?

A.—I think tolls should be abolished. I cannot speak on that with any authority, but I do not think people would object if you could always spend the income on the improvement of roads. If all further taxation on cars and other forms of transport were spent on the roads and tended to improve the roads, etc., I think it would not be opposed. I think heavy taxation is resented because the roads especially out of the municipal limits are not at all good. Any form of taxation that would result in the improvement of roads would not be opposed.

Q.—Actually you have different forms of tax on transit in India. You have octroi, terminal tax and municipalisation of markets which brings in heavy fees on the sales and you have here tolls. You have no objection to it?

A.—We have no great objection.

Dr. Hyder. Q.—You say at the end of your answers to Qs. 27, 28 and 29, that "It also considers taxation a proper accompaniment of representation and that the taxation should be indirect". Well, the people who pay these taxes are all poor people. I ask you if they have any representation whatever in any legislative bodies or local bodies. Therefore they would be paying the tax, but they would not have any representation?

A.—I thought this would be asked. We favour indirect taxation as direct taxation is easily evaded in many cases. I cannot quite see myself how you could have indirect taxation as a proper accompaniment for representation, but at the same time indirect taxation is the only way you can make each member pay something towards the upkeep of the Government.

The President. Q.—You have a capitation tax in Burma, a house tax in Assam, a chowkidari tax in Bengal and the Punjab, also *haisiyat* in the Punjab. What you have corresponding to these here is the profession tax in the rural areas. Are you satisfied with that as far as it goes?

A.—I have no information about it.

Q.—We have been told that the small village trader and the money-lender escape taxation more than the others. Would you approve of a fresh tax on them?

A.—I cannot express an opinion.

Sir Percy Thompson. Q.—In reply to Q. 34, you say that the present scheme of graduation is satisfactory. The English system was the same as the Indian system up to 1920 and then it was changed. One of the reasons why the system was given up was the difficulty of marginal relief. Suppose you have Rs. 10,000 as the point at which the rate changes. A man with Rs. 10,001 pays much more than the man with Rs. 10,000. He pays far more than the difference in the income of one rupee would justify. On the other hand, if you have a system of deducting a slice of the income levying up to a certain amount at half rates and the rest at full rates, you can get any sort of graduation you like and avoid the difficulties on account of the rates changing. I was wondering whether you thought that the Indian system had advantages to overcome difficulties of this sort.

Mr. Graham Ross. A.—Put in that way, I do not suppose there is much advantage.

Q.—Are you in favour of the differentiation of earned and unearned incomes in this country? May I suggest to you one difference in this respect between Indian and European conditions? The largest amount of unearned income is rents and it would be ridiculous to charge a small amount of unearned income, when the vast volume of such income, viz., rents, is not charged at all. Do you accept that as fair?

Mr. Graham Ross. A.—The point is that there should be a difference between earned and unearned incomes.

Q.—*Prima facie*, you obviously would say that a man who is drawing Rs. 5,000 a year from investments is in a better position and has a better capacity to pay than a man who has a precarious salary of the same amount: and he can afford to pay more by way of income-tax.

Mr. Graham Ross. A.—Apart from lands I doubt very much if there is much unearned income in India.

Q.—The suggestion I was making was that it would be an anomaly to make a distinction between earned and unearned income, when as a matter of fact the main source of unearned income is not taxed at all.

Mr. Graham Ross. A.—Quite so.

Q.—The Indian super-tax on companies is very analogous to the English corporation profits tax. The case for it in England disappeared when in 1922 it was enacted that under certain circumstances super-tax might be charged on the undistributed profits of companies. There is no provision of that kind in India, and therefore a limited company has an advantage as compared with a private firm. A private firm is charged on the whole of the profits it gets, whether distributed or not. Super-tax is only paid by a limited company to the extent that its profits are distributed.

Mr. Mackay. A.—We feel that in competition with private firms limited companies have a disadvantage owing to the 6½ per cent super-tax that the companies have to pay.

Q.—What you really mean is that 6½ per cent is too high a price to pay for this advantage.

A.—Yes.

Q.—Would you agree that there is a case for charging limited companies some kind of tax in view of their privileged positon regarding super-tax?

Mr. Graham Ross. A.—I think we would do that, so long as it was not too high.

Q.—There is also the fact that a limited company does have some advantages in the matter of corporate finance and limited liability which private firms cannot have.

Mr. Graham Ross. A.—Yes. It was in this connection that we said that we did not want to have anything done to stop the formation of Indian companies. We thought that the formation of companies was so difficult in India that it would be better not to do anything to stop it.

Q.—But if the tax that you have to pay is not incommensurate with the advantages you get, then would you agree to super-tax?

A.—Yes.

Q.—That being so, can you suggest any practical modification in the super-tax on companies?

Mr. Graham Ross. A.—At present if a company pays super-tax out of its profits, the shareholders of the company liable to super-tax have also to pay super-tax on the dividends. That tends to make wealthy people shy off sometimes. It is not a very attractive proposition to men of wealth to invest in companies. There is double taxation there.

The President. Q.—There was an exaggerated case of that in Burma. A limited liability company may have money invested in a subsidiary company and that company again may have money invested in another subsidiary company and so on. The last in the chain pays super-tax: the first subsidiary company has to pay super-tax on its dividend, and thus super-tax may be levied several times.

A.—I think myself that the super-tax on companies is a mistake in view of the need of development there is at present in India.

Q.—In a case like that, would you allow an abatement to a parent company for the payment of super-tax?

A.—There are very few holding companies in Madras, but I consider that this super-tax tends against the formation of companies. I think it is a handicap. We are thinking of the need to develop trade and industry in India, and we think it can best be done by the formation of companies.

Sir Percy Thompson. Q.—Supposing you reduce it by half and make up the difference by taking away the Rs. 50,000 free allowance, how would that do? Can you see any reason why a company which has all rich shareholders and makes Rs. 49,000 should pay nothing, while a company consisting of poor shareholders making Rs. 1,00,000 has to pay super-tax?

A.—That might be done.*

Q.—Isn't it the case that a good many private companies are formed here with a view to escape the payment of super-tax?

A.—I do not think so.

Q.—Don't you think that a family concern is turned into a limited company simply to put the profits to reserve?

Mr. Graham Ross. A.—I don't know of a single instance of that kind in the Madras Presidency.

Mr. T. M. Ross.—Another point in this connection is that a company is hit very hard as compared with a private firm on account of municipal taxation. In every municipality where a company is trading or has a branch office, if the paid-up capital of the company is 10 lakhs of rupees, it will have to pay Rs. 500 a year to every municipality. There are companies in Madras working in 20 different municipalities paying Rs. 500 a year in each. A private firm working alongside in the same business pays only to one municipality.

Q.—Is there not an alternative, to charge on the profits of companies?

A.—Yes, but if there is a clerk and a one-room office, it is called a branch office and each company having a branch office with 10 lakhs as capital has to pay Rs. 500 to every municipality in the Presidency, quite irrespective of profits. It is assessed on the capital. We had this taken up by the Madras Government and I gave evidence at Ootacamund before an Enquiry Commission. It was agreed that it was wrong in principle that a company should pay to every municipality and a private firm only to one.

The President. Q.—What was this Committee?

Mr. T. M. Ross. A.—It was a committee formed last year to consider the revision of the District Municipalities Act. They dropped the proposal. The only reason they could give for making a difference was that a company was much more easy to get at. It does hit companies very hard. A large company which has 200 branches throughout the Presidency pays at practically every branch the maximum amount under municipal taxation.

Sir Percy Thompson. Q.—Do they in addition pay other taxes such as a tax on the annual value of the premises?

A.—In municipalities, yes.

Q.—With regard to the exemption limit, you think the principle in fixing a limit should be simply administrative convenience. If the limit were Rs. 1,000, practically the number of assessees would be doubled and the amount of extra revenue obtained relatively small. With Rs. 1,500 as the limit, do you think you would get the same result?

A.—We have said that the exemption limit should be fixed as low as practicable.

Q.—Your answer to Q. 41; do you think there is much evasion here?

A.—I do not think so.

Q.—We have been told that in many cases tax-payers keep different sets of books for income-tax purposes.

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*There was some confusion over this question at first. We do not agree to taking away the Rs. 50,000 free allowance. That would hit small companies and we wish to encourage such companies.

Mr. Graham Ross. A.—I have been an accountant here for many years and I never had the slightest suspicion of it.

Mr. Mackay. A.—It is more a tradition than the actual fact: I do not think any Collector of Income-tax has seen duplicates of books.

Dr. Hyder. Q.—Don't the Chettis keep two or three different kinds of books, one for the Income-tax Commissioner, one for the trade, etc.?

A.—I think that is a tradition, not an actual fact.

The President. Q.—Don't you think that in the case of income-tax returns the number of books brought before Chartered Accountants has increased very largely since the high rate was imposed?

Mr. Graham Ross. A.—I don't think so. It has increased since the new income-tax administration has come in, that is to say, the income-tax authorities have begun to know something about their job, they are now able to investigate the accounts better.

Q.—In the old days it was a case of happy guessing: they increased and increased until you got somewhere near the actuals: then the man took the books to the Chartered Accountants, and not before then.

Mr. Graham Ross. A.—I think it is due to the better administration of the Act.

Sir Percy Thompson. Q.—I take it that in your view this new system of central administration is a distinct advantage.

A.—It is a great advantage, because we get one line of argument throughout and things admissible in Bengal are now admissible in Madras. In the old days we had to fight for a point in Madras which was readily conceded in Bengal.

Q.—Please see Q. 43. In England you have what are called General Commissioners, who actually take part in the work of assessment. I was wondering whether you would think it desirable, in towns like Bombay, Calcutta and Madras, to have a uniform body, probably unpaid, who would have some voice in the making of assessments or at any rate have judicial powers.

Mr. T. M. Ross. A.—We would oppose that here: it is impossible to get an absolutely impartial body.

Dr. Paranjpye. Q.—Do you think that a body which, among others, would contain members of your Chamber would not properly look into the accounts of Chettis and other Indian assessees?

Mr. Mackay. A.—I do not think they would be qualified.

Sir Percy Thompson. Q.—At present there is an appeal from the Income-tax Officer to some superior officer. What do you say to having between the Income-tax Officer and his superior officer an unpaid body of unprejudiced men?

A.—We had the question under discussion last year and we definitely opposed it. Our view was that it would be absolutely impossible in Madras to get an impartial body who would be accepted by the community at large.

Q.—So you advocate that the tax-payer should go straight to the superior officer from the Income-tax Officer.

A.—We advocate an appeal to the High Court rather than an appeal to the body you mention.

Q.—Suppose in a case no question of law is involved, would you have an appeal to the High Court on a question of fact?

A.—Yes.

Q.—But supposing the intermediate body was in favour of the tax-payer, I think the higher official would think twice before going against their view. Such a body, if constituted, would purely be in the interests of the tax-payer and not at all in the interests of the revenue.

Mr. Mackay. A.—I see the advantages of an optional appeal: we would accept that.

Mr. Graham Ross. A.—I do not think, personally, that it is necessary here. As far as our dealings with the income-tax authorities are concerned, we do not have any difficulty in proving anything we want to prove.

The President. Q.—Personally, have you filed a considerable number of appeals and are you satisfied with the decisions arrived at in those cases?

A.—Yes. We may have had to appeal to the highest authority in some cases, but generally we are satisfied with the decisions.

Q.—Is there a tendency for officials to support one another?

Mr. Graham Ross. A.—Possibly, but we have no complaints here in regard to the manner in which appeals have been dealt with.

Dr. Paranjpye. Q.—Would you say the same thing about Indian business men also, viz., that they have also no complaints to make about the manner in which appeals are disposed of?

A.—We have had considerable experience in regard to appeals and we can say that we are generally satisfied with the decisions of the appellate courts. We may have had to appeal to the Commissioner in some cases, but we generally get satisfaction in the end.

Mr. Graham Ross. A.—As a rule, we have had no cause for complaint.

Sir Percy Thompson. Q.—You say "The Chamber would prefer assessment on the three years' average as being more equitable than on the previous year's income". That is curious, because the agitation in England in 1919 was to change the three years' principle to the previous year's system.

A.—We have no objection to that provided setting off losses is allowed. Every question of providing relief has been turned down; and the only alternative seems to be to go back to the three years' average. If there is any intention of the Government to give us relief for the losses, certainly we would prefer the previous year's system.

Q.—How long should the carrying forward of losses go on?

A.—It is very difficult to say.

Q.—Suppose a man had made a tremendous loss in one year; you cannot carry it on for 20 years. The question is whether you could carry it forward for one year or two years.

A.—I think in a majority of cases, we will be satisfied with one year.

The President. Q.—You could not allow that unless the assessees are producing their books every year.

A.—Yes.

Q.—With regard to Q. 42, do you think it is practicable?

A.—The advantage would be entirely for the income-tax authorities. It would enable them, if you had a standard form of accounts, to compare the results of, say, hides merchants or piece-goods merchants.

Q.—You are in favour of increasing the salt tax?

A.—Yes.

Q.—You do not favour total prohibition. As representing large employers of labour, do you find that the necessity for prohibition exists in the shape of marked decrease in the industrial efficiency of your workmen?

A.—We do not speak from the point of view of large employers of labour.

Q.—Is there a marked absenteeism on the day after the holiday?

A.—No.

Dr. Paranjpye. Q.—On the day after the pay-day?

A.—No.

The President. Q.—Would you object to the increased duty on sugar?

A.—No.

Q.—How would you levy the excise on indigenous sugar?

A.—It would be very difficult.

Dr. Paranjpye. Q.—Would the duty be on indigenous raw sugar or refined sugar?

A.—It is for the Government to provide the means to tax.

Q.—Even raw sugar?

A.—Yes.

Q.—That would be very difficult.

A.—Yes; we realise it.

Q.—The sugar factories will only be a few and you can get at them.

A.—Yes.

The President. Q.—Have you any scheme for an excise on tobacco?

A.—No. We realise the difficulty of collecting the excise on tobacco.

Q.—We find in Burma they charge crop rates.

A.—Yes; that might be done.

Sir Percy Thompson. Q.—The difficulty is in the varying yields of land?

A.—Yes; there are practical difficulties.

The President. Q.—The other scheme is that you should auction the monopoly of vend in an area consisting of, say, 20 or 30 villages; the cultivator would be required to sell his produce either to the monopolists of his area or to the monopolist of some other area or to a licensed trader or exporter. That would be for country tobacco only. You have a fixed fee license for manufactured tobacco as you have for imported tobacco.

A.—It seems to be a practical suggestion.

Q.—Have you any knowledge of the Pondicherry tobacco system?

A.—No; we have no definite information about it.

Q.—You think that the tariff should be applied to all imports?

A.—Yes, for revenue purposes.

Q.—And you would increase duty on liquors and drugs? Is it not already high enough?

A.—It is high; but the public can pay even higher rates.

Q.—Perfumery—because there is spirit in it?

A.—Because it is a luxury.

Q.—How do you collect the duty on drugs and patent medicines?

A.—By stamps.

Q.—Would you advocate an excise on patent medicines—a local stamp duty?

A.—Yes.

Q.—On perfumery too?

A.—Yes.

Sir Percy Thompson. Q.—You would generally agree with the proposition that you should not impose an export duty on any article unless it is in the nature of a monopoly.

A.—Yes, generally speaking; because, if you do impose export duties on articles which are not more or less a monopoly, you penalise them in competition with other parts of the world.

Q.—You would not say that hides is a monopoly?

A.—No.

Dr. Paranjpye. Q.—Would you have also an export duty on oil-seeds?

A.—No; because Indian oil-seeds are in serious competition with other parts of the world.

Q.—But would not the same argument apply to this also, and would not the oil-cake be retained in this country?

A.—Modern oil-mills have been established in the Madras Presidency and have not been successful.

Q.—If there had been an export duty perhaps they would have been successful.

A.—It may possibly be so; but I doubt it.

Q.—You are generally in favour of death duties?

A.—Yes, for revenue purposes.

Q.—Have you formed any estimate of what they would yield?

A.—No.

Q.—What is your idea of the way in which the joint Hindu family should be treated?

A.—We have stated that it should be on the share of the deceased member of the family. We realise it is very difficult to properly estimate the share.

Q.—The share probably can easily be estimated. Now the principle on which death duties are levied in other countries is that the property passes on death. But in India property passes not only on the death of a member but also on the birth of a member. When a male child is born to a Hindu, it immediately becomes the owner of a certain amount of the property. That being so, how would you treat a Hindu family as compared with a non-Hindu family?

A.—We realise there are very many practical difficulties in the way.

Q.—Would you have two kinds of duties—an estate duty and a legacy or succession duty as in England?

A.—I do not know; it would be difficult to apply them here.

Q.—The estate duty, of course, would be according to a certain rate on the whole estate left. Legacy duty will probably vary with the degree of relationship of the legatee.

A.—If they can be applied, you can have both. I do not know what the practical difficulties would be.

Q.—Do you think these death duties should be administered provincially?

A.—No; they must be centralised.

Q.—I suppose that you contemplate that at least part of these duties should go to the provinces.

A.—Yes; but it is very difficult to express an opinion about the proportion.

The President. Q.—You have not said anything about stamps.

A.—But we may say that the increased stamp duty on *hundis* or negotiable instruments tends to operate against the extension of modern banking in India specially at up-country places. Parties prefer to borrow on *Khathas* (current accounts) instead of making *hundis* or of drawing promissory notes.

Q.—With regard to Q. 147—division of proceeds—also you have not said anything.

A.—We do not think the Chamber is well qualified to express an opinion on the subject.

Q.—We had a discussion with three representatives of the European commercial community at Delhi and they seemed to favour a common scheme. We have got three methods of dividing. One is the separation of sources, giving each Government particular taxes; the other is the administration by one authority and division of the proceeds and the third is the adding of a local share to the imperial tax. Now we have to see which method would be suitable to each of the taxes. With regard to land revenue, it is perfectly obvious that it must be left to the provinces; customs, to the Government of India. With regard to the export duties, Bengal wants jute export duty, Burma rice export duty and so on. What would be the view of your Chamber?

A.—I think they have a strong claim on the duties paid on the articles in that province. But it is very difficult to arrive at any proportion.

Q.—It was suggested that it might be fixed with reference to the expenses of the province. For instance, Assam has to provide roads for the tea estates and Bengal to provide for the jute industries and that means a lot of money.

A.—That seems to be a fair demand. Of course, income-tax must be central.

Q.—How would you determine the share of the provinces? There are two points. The first is, how are you going to divide the taxable income and how to get at the provinces' share of the tax levied. The second is, it was suggested that the provinces should take a basic rate, that all provinces, for instance, should be allowed an anna in the rupee and the Government of India might take as much as they liked. The provinces

would get their anna and no more. Then comes the accounting question as to how you should allocate the taxable income to the province of origin or the province of residence.

A.—We cannot say what would be considered a fair division. I think it must be more or less arbitrary.

Q.—Do you think it is practicable for a committee of Chartered Accountants to arrive at an equitable basis?

A.—They would arrive at something.

Q.—Death duties should be central?

A.—Yes.

Q.—Stamp duties on transactions centrally governed?

A.—But I do not see how you can make a fair division between each province.

5th May 1925.

BANGALORE.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President*.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. G. T. BOAG, I.C.S., Commissioner of the Corporation of Madras, was examined.

Written memorandum of Mr. Boag.

Q. 106.—The proposition, that the main criterion for levying the taxes in the case of national or onerous services administered by local bodies is the ability to pay, may be accepted. But the other proposition that in the case of local or beneficial services the main criterion is the measure of the benefits received needs to be safeguarded by the proviso that in estimating the measure of these benefits, not only the near, but also the more distant future is to be taken into consideration. For it would be inadvisable to concede that the rate-payer has a right to expect tangible proof of the benefits conferred upon *himself* for his payment of the tax. It is well known that some great schemes for the improvement of a locality take long years to complete and that the tax-payer tends to be discontented in the meanwhile. The drainage scheme in this Corporation is an instance of this. Though it is many years since we embarked on this undertaking, we have not neared its completion yet. The same thing may be said of the child welfare scheme which has not yet attained its full growth. These schemes give rise to a deal of unsympathetic criticism, even though they are admitted by the great majority to be beneficial.

Q. 107.—The first portion of the question cannot be answered in the absence of the schedule referred to therein. As regards the second portion, I am of opinion that the levy of certain specified taxes should be imperative. A local body should not be allowed to choose the taxes which it should levy. Property tax and vehicle and animal tax are the most natural and common sources of municipal revenue. Local bodies ought to be compelled to levy these taxes. If the main taxes are not specified, there will be no uniformity in procedure in the same district or presidency.

Q. 108.—The three kinds of taxes, viz., octroi, house and land tax and land-cess should continue wherever they exist. They are reasonable in themselves. Moreover, people have become accustomed to these taxes and their abolition is quite unnecessary.

Q. 109.—The only octroi duty in this Corporation is the timber tax which is levied on all kinds of timber imported into the city. Armitage Smith's criticism of this duty does not in any respect apply to this timber tax which is not clumsy or costly in collection and which cannot be evaded in the case of imports by sea or by rail. As such imports account for over 95 per cent of the total revenue from this source in this city, the chances of evasion are very small indeed.

This criticism does not also apply to the terminal tax, the levy of which by this Corporation is under consideration. Means of long distance communication having been restricted to railways and shipping this tax can be easily collected through the agency of the railway authorities and the Madras Port Trust, if necessary, just in the same way as the tax on timber is being recovered.

In its general application the criticism has great force. Octroi is generally levied on tobacco, opium and other Indian commodities. When the commodity is valuable, i.e., when its bulk is small in comparison to its price, the octroi on it is liable to be extensively evaded.

Q. 110.—I am unable to answer the first part of this question. The second part has been answered in the previous paragraphs.

Q. 111.—A municipal administration must have several sources of income so that even if one fails it may fall back on another. The tolls on vehicles entering the city add appreciably to its income. Moreover, so long as vehicles and animals in the city are taxed, tolls ought to be levied on those entering the city from outside, because the in-coming vehicles enjoy the benefits of good roads and other amenities of the city without in any way contributing to their upkeep; also absence of tolls might induce residents of the city to keep their animals and vehicles outside and so evade payment of tax. A distance of ten miles between one toll gate and another on roads outside municipal limits may be considered reasonable.

Q. 112.—The whole of the house and land tax should, I think, be ordinarily levied only from the owner. The owner of a property is the only person whom we can approach for payment always. In many cases the occupier may be constantly changing and the same building may have many occupiers so that there will be difficulty in distribution as well as in apportionment.

The owner can always shift the burden of the tax on to the occupier by fixing his rent so as to include the taxes payable. The only case in which the tax might reasonably be levied from a person other than the owner, is where a lessee sublets a house and thereby makes a profit. There have been many such cases in Madras city. I think that in these cases the tax *on the difference* should be recovered from the lessee.

Q. 113.—The principal reason why the rate of tax on lands and buildings is limited appears to be to prevent local bodies from levying a heavy tax on the people. But the power to fix the rate of taxation is in the hands of popular bodies; in this city it is with the Council which has an elected majority. These popular bodies are always averse to any increase in taxation and it is quite improbable that they would unnecessarily enhance the rate of property tax. There appears therefore to be no very good reason for limiting the power of a local authority to levy whatever rate of property tax it may think necessary. In fact there is no such limitation in the Madras City Municipal Act IV of 1919. In the old Act III of 1904 the maximum rate of property tax was fixed and the tax was levied at the maximum rate. The desire on the part of the local bodies to have recourse to other forms of taxation does not necessarily arise out of the limitation of its power to levy the property tax at whatever rate it may choose, but from the desirability of tapping additional sources of revenue.

Q. 114.—In the Madras Corporation the limit of absolute exemption is Rs. 18 (annual value). The Council has the power of exempting buildings with an annual value of Rs. 36. This power has been exercised so that lands and buildings with an annual value of Rs. 36 will hereafter be exempt from taxation. This limit of exemption may be considered reasonable. It exempts the poorer classes who cannot bear any tax.

Q. 115.—It is a good principle to assess all vacant lands within municipal limits whether put to use or not. This is what is being done at present. It prevents owners of land not attached to buildings from keeping them vacant and thus increasing the housing difficulty. It is best to assess these lands only on their undeveloped values. Proviso (*c*) to section 102 of the City Municipal Act provides a good method of rating them.

It might be a good principle also to exempt improvements for a certain number of years only. When the owner of a vacant piece of land erects a building on it, the building may be exempt from taxation for a certain period, say four or five years. This would be an encouragement to people to build houses.

Q. 116 (*a*).—In the amount of revenue realised by this Corporation, the profession tax and the tax on companies rank next to the property tax. The profession tax is a reasonable source of income to the Corporation, though some adversely criticise it as an additional income-tax. But the division of the persons liable to this tax into a few broad classes assessed on income may be considered to be the best method of assessment. The

Calcutta Municipal Act of 1923 adopts a slightly different principle, and under it the highest profession tax paid by a barrister or vakil is Rs. 50 whether his average income is Rs. 5,000 a month or Rs. 500 a month. The Madras Act provides a better method under which the barrister or vakil pays roughly in proportion to his income. The profession tax has recently been introduced by the Bombay Corporation and one or two municipalities in Northern India.

(*b*).—The tax on companies is also another good source of income. Under the City Municipal Act this Corporation levies the tax on the paid-up capital of a company whether it has its head office in the city itself and transacts business or whether it does its business through a branch office, agent or firm. In some cases this procedure works manifest injustice. Take for example two companies with the same paid-up capital. One company may be making double or treble the profit that the other company may be making. But all the same they have to pay the same tax. In the case of foreign companies which have branch offices or agents or firms to represent them they are considered as companies incorporated in this city and are taxed on their entire paid-up capital, irrespective of the fact that only a small portion of that capital may be put to use in the local branch itself. It would be fairer to assess such foreign companies on a proportion of their main capital (say a quarter), or on the total turnover.

(*c*).—A manufacturing tax on cotton is not levied by this Corporation.

Q. 117.—Grants-in-aid should be given from the general Governmental funds to finance a national or onerous service in any area administered by a local body. It is always advisable to earmark these grants for particular forms of the expenditure. They should not be given as unconditional contributions which local bodies may spend in other ways than those in which the Government intended the grants to be utilised.

The basis of such subsidies should be a fair division for the cost of providing the national or onerous service between the local body and the Government. This depends upon the taxable capacity of the rate-payers of the locality and the ability of the local body to bear the expenditure.

Q. 118.—There is no doubt of the fact that there exists a sufficient stimulus in India to maintain a sufficient standard of efficiency in such services as education, sanitation and road maintenance. In this Corporation, for example, a scheme of compulsory education is being progressively pushed through and the Council has recently passed a resolution to levy an education tax of ¼ per cent of the annual value of lands and buildings in the city.

Q. 167.—This statement contains a truth which will be borne out by persons experienced in revenue administration. Even when there is central control of the process of assessment there needs to be a careful and vigilant scrutiny over assessments to ensure absolute correctness and to avoid any disparity between one assessee and another.

Q. 171.—In my experience I have found that the independence of the officers responsible for assessment from any control on the part of the electorates is absolutely necessary. When the assessing officer is dependent, directly or indirectly, for the retention of his office, on the will of the electorate a high standard of efficiency cannot be expected. Such an officer would naturally hesitate to do anything that would meet with the disapproval of the electorates. It would therefore be the best thing to keep the assessing officer quite independent of the electorate.

Mr. Boag gave oral evidence as follows :–

The President. Q.—You are the permanent Commissioner of the Madras Corporation?

A.—Yes.

Q.—You have had considerable experience as a Settlement Officer?

A.—Yes, I was a Settlement Officer for nearly five years.

Dr. Paranjpye. Q.—What is the position of the Commissioner, is it something like the Chief Executive Officer in Bombay?

A.—Yes.

Sir Percy Thompson. Q.—Under the Madras City Municipal Act, you have a statutory function to perform?

A.—Yes.

Q.—You are quite independent of the electorate?

A.—Yes.

Q.—You are only responsible to the Madras Government, I think?

A.—No. I think I am responsible to the Corporation. I am rather a servant of the Corporation.

Q.—There is a provision, no doubt, in the Act that "the Governor in Council may at any time remove the Commissioner from office, and shall do so, if at a special meeting of the Council called for the purpose not less than 33 Councillors vote for such removal". But only the Governor can dismiss the Commissioner, I think?

A.—Yes.

Dr. Hyder. Q.—The Chief Executive Officer of the Madras Corporation has always been an official?

A.—Under the old Act there was no Commissioner, but there was a President who was appointed by the Government. Since the new Act came into force, the first Commissioner was a non-official.

Sir Percy Thompson. Q.—Have you any concern at all with the deliberations of the Council or their policy?

A.—I have a right to attend the meetings of the Council and I can speak whenever it is necessary. The President can require my attendance at any meeting.

Q.—If any resolution is passed by the Council you are bound to carry it out?

A.—Yes.

Q.—Even if the resolution was *ultra vires?*

A.—In that case I would point out that they have exceeded their powers.

Q.—Would there be any appeal to anybody?

A.—I suppose the Government is the final arbiter in a matter of this sort.

Dr. Paranjpye. Q.—You have statutory powers to make appointments under the Corporation?

A.—Yes, except in the case of three officials—the Revenue Officer, Engineer and Health Officer, which appointments are made by the Corporation, subject to the confirmation of the Governor in Council—the appointments are made by me. Appointments carrying more than a salary of Rs. 500 require the sanction of the Council.

Q.—Who presents the budget to the Council every year?

A.—I present the budget to the Council every year.

Q.—Who is responsible for the actual carrying out of the budget?

A.—I do it myself.

Q.—How many standing committees have you?

A.—There are four standing committees, one for Taxation and Finance one for Works, one for Health and another for Education.

Q.—There is no general standing committee?

A.—No.

Sir Percy Thompson. Q.—With regard to the question of the distinction between onerous and beneficial services you say, that the child welfare scheme can be considered a beneficial service. Is it not rather a national service?

A.—I was simply quoting from Madras, where the Corporation manages the child welfare scheme for the city.

Q.—So it does for education?

A.—Yes, to a limited extent.

Q.—But education must be regarded as a national service and not a local service.

A.—Yes, when I answered this question, I was not distinguishing it in that sense, but I was distinguishing it on the ground of the body responsible for carrying out the work.

Q.—In your answer to Q. 107, you say that local bodies ought to be compelled to levy the property tax and vehicle and animal tax. But you are aware that in large parts of India, neither of these taxes are levied by any municipality?

A.—I was not aware of that.

Q.—In a good many parts of Northern India, practically the whole of the taxation is composed of octroi and terminal tax.

A.—My experience has always been of Madras where the property tax is universal.

The President. Q.—You say you cannot answer the first portion of Q. 107 in the absence of the schedule referred to therein. The schedule referred to is the schedule to the Devolution Rules. One specific instance of a tax which I think it is proposed to allow the Corporation to impose but which is not in the schedule is the tax on amusements.

A.—Yes.

Q.—A question has been raised before us whether it is wise to give the local bodies the power to levy that tax, the alternative course being that Government should impose the tax and collect it and then hand over the proceeds to the local bodies. The point is whether it is liable to lead to class taxation if a municipality is given power to impose the tax.

The Maharajadhiraja Bahadur of Burdwan. Q.—The idea is this. Take a city like Calcutta where there is an amusement tax or gambling tax. The tax falls on most of the institutions or organizations, e.g., races, theatres and cinemas, that are controlled by Europeans, and largely people who attend these institutions are Europeans, at least they outnumber the other communities, and therefore at the present moment it would probably be advisable to give the control to the Local Government so as to avoid any racial prejudice or racial animosity arising out of these taxes. Therefore, I want to know your own opinion in a matter of this sort. Supposing such a tax is levied, do you think it will be better, as the President has just now remarked, for Government to impose it, and then if necessary, give the proceeds to the local bodies, instead of allowing the local bodies to levy it themselves?

A.—Well, as far as I am aware and as far as Madras is concerned, I do not think there will be any question of class feeling. All classes go to amusements.

Dr. Paranjpye. Q.—You have not heard of a tax which is deliberately intended to fall on one particular community and not another?

A.—No, not in Madras.

Q.—The constitution of the Madras Corporation is such that it would not be possible, except perhaps on Brahmins?

A.—I should not like to say that.

The President. Q.—Supposing you had legislation which gives the Corporation the power to levy taxes on amusements, e.g., on the race-course, would it not exercise considerable influence upon the proposal to include Saidapet and its surroundings within the Corporation limits?

A.—Probably.

Q.—Therefore it would raise a considerable class question?

A.—Not so much a class question as the question of taking measures to suppress gambling.

Q.—Another tax which has been suggested is a tax on advertisements. I think this is not a tax belonging to the local bodies.

A.—It is not in this schedule?

Q.—No.

A.—What I am thinking is this. We are at the present moment in the Corporation preparing by-laws regulating the advertisements posted on trees, walls and roads which belong to the Corporation, and we propose to levy a fee for them. Probably, it is an infringement of the prerogative of Government.

Q.—You would rather like to have this power?

A.—Yes.

Q.—Would you please see the schedule under the head "Terminal tax on goods". You can levy it "only in a local area where an octroi was not levied on or before the 6th July 1917". You cannot levy it in Madras without the sanction of the Government of India.

A.—Yes.

Q.—But you have already got an octroi on timber.

A.—Yes. It has been levied only since the present Act came into force, i.e., 1919.

Q.—I think it was already in force.

A.—I don't think so.

Sir Percy Thompson. Q.—Assuming there was an octroi on timber prior to 1917, would it not give power to levy a terminal tax?

A.—I do not know. I should explain that when I spoke of a terminal tax, I was not referring to a tax on goods, but I was referring to a tax on persons similar to the tax which is in force in Calcutta.

Dr. Paranjpye. Q.—I see. Is it something like a pilgrim tax?

A.—Yes.

The President. Q.—Is not your timber octroi practically a terminal tax now?

A.—In the sense that we give a rebate on timber which is exported from the city. But we levy it on the roads and canals as well as on the railway and Port Trust. We do it through the toll contractors.

Dr. Paranjpye. Q.—Is there a good deal of timber exported from Madras?

A.—Yes, a great deal. We get a lot of teak from Burma, and it is sent up-country from Madras.

Sir Percy Thompson. Q.—Is it a fact that there is a lot of trouble about refunds?

A.—That is a general complaint. I have heard it very often. I do not think there is any real difficulty beyond a question of delay.

The President. A further suggestion has been made for the transfer of stamp duties to the local bodies. We are hearing all round the country that the rates of stamp duty ought to be fixed by all-India legislation. There is already difficulty over provincial differences.

Sir Percy Thompson. Who has proposed it?

The President. The Madras Government has proposed it.

Q.—You know you have power to levy a surcharge on the stamp duty on transfers of property already, and there is no difficulty in it.

A.—No.

Sir Percy Thompson Yes. That is different.

Sir Percy Thompson. Q.—In your answer to Q. 108 do you mean that without any qualification, these three kinds of taxes are levied? In the United Provinces, you know, there was a pretty exhaustive enquiry in 1908 or thereabouts, and they came to the conclusion that octroi should be replaced by terminal tax. I take it you agree that if you start with a clean slate, octroi should not be levied.

A.—Yes, certainly.

The President. Q.—You actually prefer octroi to terminal tax in the case of timber because of the refunds?

A.—I do not quite know how the terminal tax works; it is a tax collected on goods which arrive in a place. From the point of view of the Corporation a terminal tax without refunds will be more paying.

Sir Percy Thompson. Q.—I should think octroi is much more suitable for timber in Madras than terminal tax.

A.—Yes, I think so.

Dr. Paranjpye. Q.—Does the Corporation have to provide facilities for handling the timber?

A.—No. As a matter of fact, the collection of the duty costs us very little. We pay a very small commission to the Port Trust and also to the railways for collecting this tax.

Sir Percy Thompson. Q.—The machinery is really the terminal tax machinery?

A.—Yes.

Q.—Therefore the system of having refunds is more equitable than if you had no refunds; otherwise you will be practically taxing the whole province.

A.—Yes.

Dr. Hyder. Q.—Is the revenue very large, seeing that you only pay the lock-keeper one rupee for collecting it on the canals?

A.—It is fairly large, as there is all the firewood. We collect through the lock-keeper and we send our man often to check his accounts.

Q.—I read somewhere it is one rupee.

A.—I forget now what it is exactly.

Sir Percy Thompson. Q.—You say that "tolls ought to be levied on vehicles and animals entering the city from outside, because the incoming vehicles enjoy the benefits of good roads and other amenities". I accept your arguments, but is it not a very cumbrous system? Does it not lead to a lot of abuses?

A.—Of course, it is a nuisance, but it cannot be helped.

Q.—Don't you think there is a good deal of corruption?

A.—A few cases have come to my notice.

The President. Q.—Any vehicle that pays license fees to a municipality is free from the toll?

A.—Yes.

Sir Percy Thompson. Q.—Do not these vehicles pay these taxes in their own municipality?

A.—If they come from a municipality they do pay, but most of them come from the villages where they do not pay anything.

The President. Q.—Was there not a conflict between the Saidapet Municipality and the Madras Corporation about the tolls?

A.—Yes, there was some trouble about it, but we afterwards came to a compromise. We subsidised the Saidapet Municipality to remove their gates. We pay them Rs. 6,000 to compensate for the removal of the gates and the loss of the tolls that they would get on the vehicles coming into Saidapet from outside, i.e., from Madras.

Dr. Hyder. Q.—Is there any other way of keeping the roads in order than by tolls?

A.—At present we get Rs. 70,000 from tolls. I do not quite see how you could get this amount without tolls.

Sir Percy Thompson. Q.—Do not the carts come to the markets? Could you not get something in market fees?

A.—I think this would affect very few of them.

Q.—If a cart came into one of your markets, who would be charged?

A.—The stall-keeper is charged.

The President. Q.—Do you charge private markets heavily?

A.—No. So far as I remember the highest fee we charge is Rs. 100.

Q.—Isn't it the policy to tax them out of existence and set up municipal markets?

A.—I don't remember that the Corporation has ever expressly adopted this policy.

Sir Percy Thompson. Q.—Isn't there this to be said against tolls, that outside people keep up the roads in Madras, but the Madras residents get most of the benefit out of them?

A.—I agree entirely that a toll in itself is a bad thing, but before I agree to abolish the tolls round Madras, I should like to be certain that we could secure an equivalent revenue by some other means.

The President. Q.—The only alternative to the toll would be a vehicle tax levied throughout the district.

A.—Yes, but I think that would be difficult to collect.

Q.—You would be unable to distinguish between farm carts and vehicles used for transport purposes?

A.—Yes.

Sir Percy Thompson. Q.—Suppose you have a large town on the border of a province and another in another province two miles away. Suppose also the former town levies a toll, because the people from the latter use the roads of the former. The latter town does not have a toll; it keeps up its roads by some other tax. Won't the people of the second town say that they are unfairly treated in the matter of the toll levied by the former town?

A.—The answer is that it is always open to them to put up tolls.

Q.—It comes to this: no one has been able to devise a substitute.

A.—Yes.

The President. One idea was to have composition. Normally a district headquarters town shares its tolls with the District Board.

Sir Percy Thompson. Q.—The system of composition has never succeeded?

A.—Not to any large extent.

Q.—I suppose people do not care to pay any appreciable sum of money in a lump sum.

A.—There is a good deal in that.

Q.—In reply to Q. 112, you say that the whole of the house and land tax should be ordinarily levied only from the owner, and your ground for saying this is that the owner can shift the burden of the tax on to the occupier. Do you happen to know that there is a curious provision in the Madras Local Boards Act that you can recover the house and land tax from either the occupier or owner without specifying which.....?

A.—That is done in Madras under the City Municipal Act.

Q.—Whom do you recover it from?

A.—We try the one and if we can't get it from him, we try the other.

Q.—Suppose you try the owner first and you cannot get it from him, you go to the occupier and get it from him, can he deduct it from his rent?

A.—I do not think there is any provision for that.

Q.—Section 104 of the Madras City Municipal Act says that the property tax shall be paid by the owner in two equal instalments. Schedule IV, Part VI, of the Act says that you can recover it from the owner or by distraint on goods belonging to the owner.

A.—That is so in the case of property tax.

Q.—Why is this difference between Madras and local boards? In the one case it is recoverable from the owner; in the other case, you seem to be indifferent from whom you recover it. The Act says you can recover it from the owner or occupier, and the one who pays seems to have no power to recover it from the other.

A.—It is in connection with charges for water that we can collect either from the owner or the occupier.

The President. Q.—Is a very large proportion of the houses in Madras owned by the people living in them?

A.—I should think that the majority of the houses are let.

Q.—It has been suggested that a tax should be levied on the capital instead of on the rental value, because it is said that as so many houses are lived in by their owners it is difficult to ascertain their rental value. Would you approve of that generally?

A.—I should not say that we have any difficulty in Madras in ascertaining the rental value of houses. If you take houses of more or less the same size in a street, probably eight out of ten are let: you can ascertain the annual value of the others from those which are let.

Sir Percy Thompson. Q.—Can you ascertain the capital value except through the rental value?

A.—No: it will certainly be more difficult to ascertain the capital value than the rental value.

Q.—In the second part of your answer to Q. 112, you say that "the only case in which the tax might reasonably be levied from one other than the owner is where a lessee sublets a house and thereby makes a profit." Supposing the owner lets a house on lease, say, for Rs. 500, and the lessee sublets it for Rs. 1,000, would the tax be charged on Rs. 1,000?

A.—No, on Rs. 500. That is the suggestion here, that the lessee might be required to pay a tax on the profit he makes.

Dr. Hyder. Q.—Then there would be two taxes.

A.—Yes.

Sir Percy Thompson. Q.—Surely if you sublet for Rs. 1,000, the annual value is Rs. 1,000.

A.—I tried to press that view, but the standing committee was of the opinion that it could only charge the owner on the rent he gets.

Q.—I should have thought that there is considerable opening for fraud here by having a dummy intermediary, and certainly in England, as in other countries, the annual value is what a house is let for to the occupier for the year.

A.—I should very much like this to be made clear, because it is a question that is always coming up.

The President. Q.—What is your machinery for assessment?

A.—The whole city is distributed into circles: each circle has an assessor; they are official subordinates under me.

Q.—What is the pay of your head assessor?

A.—They are all on the same grade: the pay runs up to Rs. 200: they are all under the Revenue Officer who gets Rs. 1,200. The permanent establishment is under me: the members of the Corporation have no authority over them at all.

Q.—But there have been cases in which assesors accompanied Municipal Councillors in election campaigns.

A.—That has been known elsewhere.

Q.—So that the elected members rightly or wrongly do take a certain part in it.

A.—They are not supposed to. If I heard of any assessor doing anything of that sort, I should have him up.

Q.—As regards appeals, what do you think of the Calcutta system which makes the second appeal to the Small Cause Court? That is, the appeal from the Commissioner's order would be, not to the standing committee, but to the Small Cause Court.

A.—I have recommended that for Madras.

Sir Percy Thompson. Q.—Is the appeal to the standing committee statutory?

A.—Yes.

Q.—Is not a change in the law very desirable?

A.—Most desirable, I think.

Dr. Paranjpye. Q.—Do you assess houses on the actual sum paid to the owner or on the sum that should be paid to the owner, considering the accommodation, etc.?

A.—As a rule, we serve notice on the occupier requiring him to state the name of the owner and the amount of rent he pays and to whom.

Q.—If you find the case of a dummy intermediary, would you take that into account?

A.—We certainly should.

The President. Q.—Do you check those statements by reference to registered deeds?

A.—Yes.

Sir Percy Thompson. Q.—Suppose I am the owner of a property and I let it to my son for Rs. 20 and my son sublets it for Rs. 1,000?

A.—We do come across cases where the rental returns are obviously untrue.

Q.—What do you do in a case like that?

A.—We should probably assess on Rs. 1,000 and let the assessee appeal.

Q.—Would he be supported by the standing committee?

A.—He probably would be.

The President. Q.—There is no limitation to the rate of tax on lands and buildings in the District Municipal Act?

A.—No.

Q.—That was a new provision introduced by the new Act?

A.—Yes.

Q.—There was another provision for allowances for repairs?

A.—Yes.

Q.—Do you remember what was the actual action taken on the introduction of these provisions?

A.—I do not.

Q.—Actually before the Act was brought into force, the tax was at the maximum: but the effect of the removal of the limitation was a reduction of the taxes.

Sir Percy Thompson. Q.—How do you assess the tax on vacant land? Do you assess it proportionately to its capital value? You may have a very high capital value and no annual value at all.

A.—We try to ascertain the capital value.

The President. Q.—It is so much per square yard?

A.—Yes.

Sir Percy Thompson. Q.—Do you automatically take the maximum?

A.—No: we assess by reference to capital value.

The President. Q.—Can you give us an idea of the Government taxation of land within the Madras city? It is mainly the 1895 rules, I think.

A.—I can't remember how it is worked.

Q.—Actually you have three classes of land: firstly, there is a good deal of land free of all land taxes.

A.—Yes.

Q.—Then there is land which is assessed to land revenue at the agricultural rate.

A.—Yes.

Q.—And thirdly, the bulk of the land pays a quitrent which is, or was at the time it was imposed, very near the rack-rent of the land.

A.—Yes.

Q.—That is revised every thirty years?

A.—Yes.

Q.—Have you any idea as to how this variable taxation by Government affects your municipal rates? Does that limit the rate which you can impose with reference to the rack-rent?

A.—I do not think so. In assessing land, we never take into consideration what the Government assessment is.

Q.—It has been suggested that Government should retire from taxation of land in the towns in order to enable municipalities to take a higher and uniform rate. Do you think there is anything in that?

A.—I don't think there is anything in that.

Sir Percy Thompson. Q.—I would like to get this matter cleared up. You have land in private ownership which pays no land revenue, other land which pays at the agricultural rate, say Rs. 10 and, thirdly, land which belongs to Government and, quite obviously, Government as owner of the

property gets a rack-rent for it. The third class is not taxed at all, but pays a *rent* of Rs. 2,000. We will suppose that each of these pieces of land is exactly the same. So you have Rs. nil, Rs. 10 and Rs. 2,000 by way of rent. We will suppose that the third piece of land was sold for Rs. 1,000 subject to the quitrent: the interest on Rs. 1,000 at 5 per cent would be Rs. 50, and so Rs. 2,050 is the annual value of that land: *ex hypothesi* the three pieces are the same and the municipality would tax all these lands on the basis of an annual value of Rs. 2,050.

A.—Yes.

The President. Q.—In the origin of things, when building sites were given over free, the man who had got the site got the land for nothing. At a later stage a piece of agricultural land became building land and he got it for the agricultural rate. The third piece of land came in at a still later stage and was auctioned.

A.—Yes: but from the point of view of municipal assessment, there is no difference between the three classes.

Sir Percy Thompson.—It is simply this; that in cases 1 and 2 Government did bad business and let its land go too cheap.

Dr. Paranjpye. Q.—Or it is possible that Government first of all tried to settle land for nothing in order to get a bigger revenue out of the remainder.

A.—Yes: that is a possible explanation.

The President. Q.—Actually Government is now paying you the difference between the ground rent and the assumed agricultural rent on lands assessed to quitrent.

A.—I don't think so.

Q.—This is done in the mofussil?

A.—Perhaps.

Sir Percy Thompson. Q.—Take the case of this Rs. 2,050. What does the Government pay the municipality?

The President.—The difference between the quitrent and the assumed agricultural land revenue on that. It is presenting them with Rs. 1,990.

Sir Percy Thompson.—In other words, Government say: "We will treat this for our purposes as if it were agricultural land and give you the difference".

The President.—It is a disguised subsidy on your theory, it is thoroughly illogical.

Sir Percy Thompson.—It is the same as if in Scotland, where land is sold subject to a feu-duty, Government had presented the municipality with the feu-duty.

The President.—The theory of it was that the three pieces of land should pay the same total taxation and the original suggestion was that Government should retire altogether and let the municipality charge on the full value.

Sir Percy Thompson.—It does. It treats the value as the same in all three cases.

The President. Q.—The suggestion made was that the fact that Government takes a very high rate of quitrent over a very large area in the towns operates to limit the municipalities raising their rate of, say, 18 per cent to something like 50 per cent.

A.—I do not think it has any effect of this nature.

Q.—Speaking as a Settlement Officer, have you any views as to the rate of land taxation in towns?

A.—I think it is entirely wrong that land in towns actually built over should still be assessed by Government as if it were under cultivation. I think Government are losing a great deal in that way.

Q.—Would you have legislation to enforce the assessment of town land on the basis of its actual value?

A.—Yes.

Sir Percy Thompson. Q.—Would not the real way of doing that be by means of an increment duty? Take, for instance, the land which is paying Rs. 10 as agricultural land revenue and it becomes valuable building land worth Rs. 2,050. From Rs. 10 it has gone up to Rs. 2,050 and the man realises the increment. But is it not rather difficult to put a common *tax* on this land and on the other piece where the man is paying full consideration in the shape of Rs. 2,000 quitrent and a capital sum of Rs. 1,000?

A.—Yes. I think you can assess land at its potential value and postpone the actual collection until the owner begins to realise.

The President. Q.—But if you assess on its value for building purposes, that will be in substitution of the quitrent?

A.—Yes.

Sir Percy Thompson.—But the quitrent is not a tax at all. It simply is a consideration for property belonging to other people.

The President. Q.—If you had a general rate of municipal tax, say, 50 per cent of the rental value, would you sell land coming in for disposal subject to that tax?

A.—Yes; all property must be liable to municipal taxes.

Sir Percy Thompson.—The Woods and Forests Department have valuable lands in Regent Street and they let them for fabulous sums, say £40,000 a year. On the top of that, the Municipality of Westminister put their rates on the full annual value. On the top of that it was proposed last year to put a tax on the site value of the land. The £40,000 is not a tax at all.

The President.—The distinction betwen that and India is this: There is no Government lease. If a piece of land becomes available the Collector asks other Government officers whether they want that piece of land. If they do not, he assesses it to quit-rent and sells it outright.

Sir Percy Thompson.—That is just the same as the feu-duty in Scotland. The land might be sold for a feu-duty of £40,000 and a capital sum.

The President.—Our quitrent is not perpetual. It can be revised once in 30 years.

Sir Percy Thompson.—Then it is more in the nature of rent; i.e., it is a perpetual lease which we do not get in England. The only difference is that in India you take power to review your rent.

The President.—The question is whether we should try to remedy it.

Sir Percy Thompson.—What? Try to go back on your bargain?

The President.—Yes. You had a piece of agricultural land and the man put in a *darkhast* and got it subject to the payment of annual agricultural rent.

Sir Percy Thompson.—Is there any document which gives him the possession of that land?

The President.—Yes; he has got the *patta.*

The witness.—Surely the point is that agricultural land is liable to reassessment at the end of the period of settlement; I do not think there is any guarantee that at the next settlement it will again be settled as agricultural land.

The President.—The Board's Standing Order 21 (12) says: 'The Collector should determine the rate of ground rent on each plot dealt with under these rules before it is put up to auction. The ground rent should be so fixed that the sum paid by the purchaser on account of occupancy right may be as low as possible. The rates fixed should therefore be slightly less than the full competitive rent, the balance of the full value of the site being recovered in the price obtained at auction or in private sale. Ordinarily the Collector should adopt such one of the rates given in Appendix XXIV as most nearly fulfils the condition.''

Sir Percy Thompson.—That is a provision for disposing of your lands at the best advantage.

The President.—How will you deal with lands disposed of before?

Sir Percy Thompson.—By an increment duty. But it is extremely difficult to tax past increments

The President. Q.—Could you give us an idea of the proposals you made?

A.—Roughly, what I proposed was to assess all land within the limits of the town on the basis of its value as building land.

Sir Percy Thompson. Q.—That seems to be possible. But if it is going to be a really heavy rent, it will be very heavy on a man who has paid full consideration.

A.—Yes; I see that difficulty.

Q.—So, is it not the imposition of an increment duty a fairer way of doing it?

A.—Yes; I think it may be.

Q.—With regard to Q. 116, you think that the profession tax in Madras is, in fact, a kind of income-tax?

A.—Yes; it is. I think in many cases it would simplify the assessment and the collection, if it were frankly recognised as a surcharge on the income-tax.

Q.—Assuming you keep it as it is—it seems to me that your profession tax has a wider range—would it help to have information as to the income-tax assessment?

A.—As a matter of fact, we always get it. We write and get the information.

The President. Q.—Your Act provides that it shall be assessed with reference to the income-tax?

A.—Yes.

Sir Percy Thompson. Q.—In other places, in the Punjab, for instance, they refuse to give the information, because they are precluded from doing so by the Income-tax Act.

A.—That may be.

The President. Q.—How do you reconcile your Act with the Income-tax Act?

A.—We get the information from the assessees themselves. They produce the receipts for the income-tax they pay.

Q.—Would it simplify matters to have it assessed by the income-tax officers?

A.—I think it would very much.

Sir Percy Thompson. Q.—They have very little knowledge of incomes under Rs. 2,000?

A.—Yes.

Dr. Paranjpye. Q.—On the other hand, income-tax authorities will have information of incomes earned both in Madras and outside it, whereas you are concerned with incomes which accrue in the city of Madras only.

A.—That is so.

The President. Q.—Suppose a man earns a lakh of rupees outside Madras. Are you not concerned with it?

A.—I do not think so. We do not charge a Nattukottai Chetty on what he earns in Rangoon or any other place.

Q.—In the case of the companies?

A.—In the case of companies it is different.

Q.—If he earns both in Madras and outside, how would you divide it in levying the profession tax?

A.—We do not attempt to find out exactly what his income is.

Dr. Hyder. Q.—I find in the replies of the Local Government that with regard to hotel keepers, refreshment house keepers, etc., in Madras, the total number assessed is 816 and the amount realised is Rs. 510. This is for the year 1921-22. And in the year 1922-23 there were 842 assessments

and the amount realised is Rs. 526. I should like to know whether it is worth while to have this tax at all. Surely, it is a waste of public money.

A.—I should like to examine the figures.

The President. Q.—Is it not also a measure of sanitary control in respect of these hotels? It is for more than one purpose.

A.—Yes, certainly. I should like to investigate the matter.

Dr. Hyder. Q.—Is it more in the way of police supervision?

A.—They are inspected by health officers and sanitary inspectors, so that they may be kept clean.

The President. Q.—What is your system of levying the charge on the hotels?

A.—On the accommodation.

Dr. Hyder. Q.—From the figures given here it works out at As. 10 per hotel on the average. Is that the charge on the Connemara Hotel, for instance?

A.—No.

The President. Q.—Is the Connemara Hotel included in that? How do you assess on that?

A.—I do not think it is included. The maximum that you can take under this head is Re. 1. The Connemara Hotel would pay profession tax under a higher class.

Sir Percy Thompson. Q.—With regard to the tax on companies you say: "In some cases, this procedure works manifest injustice. Take for example, two companies with the same paid-up capital. One company may be making double or treble the profit that the other company may be making. But all the same, they have to pay the same tax". Is not that provision inserted deliberately in the Act—to charge on the capital and not on the profits?

A.—Yes; I presume so.

Q.—Then you say "In the case of foreign companies which have branch offices or agents or firms to represent them, they are considered as companies incorporated in this city and are taxed on their entire paid-up capital". But is there not a limitation in the case of a branch, that if its profits don't exceed Rs. 25,000 it would be taxed on the profits?

A.—Yes; it is subject to that limitation.

Q.—That is a very moderate tax, about 2 per cent.

A.—Yes.

Q.—The individual by way of profession tax pays more on the average?

A.—Yes.

Q.—I should imagine that in the case of large firms and branches, as a rule, the limitation would apply.

A.—Yes; it does.

Q.—With regard to the assessment on companies by the local boards, it is a different scale?

A.—Yes.

Q.—And it is heavier?

A.—Yes.

Q.—What is the reason?

A.—I do not know.

The President. Q.—You don't press your suggestion that it is fairer to assess companies on the total turnover?

A.—No; I don't press it. I think the assessment on the total turnover would be fairer; but I do not think it would matter very much.

Sir Percy Thompson. Q.—It will be all right in the case of a manufacturing or trading concern. But in relation to profits, would it not work very differently in the case of small companies making big profits and big companies making small profits?

A.—Yes.

Q.—Probably the fairest thing really is to make it a function of profit, and I think the effect of the proviso is to do so.

A.—Yes.

Q.—You agree that grants-in-aid should be earmarked ?

A.—Yes.

Q.—And would you make it conditional on a certain standard of efficiency being maintained in the administration?

A.—Yes; I think it is desirable.

Q.—Is that principle in force in Madras?

A.—I don't think that condition is expressly stated here.

Q.—Suppose a service is badly administered. Would you say that "unless you improve the administration, I withhold the grant"?

A.—I have never come across any instance of that sort.

The President. Q.—Taking the 16 lakhs grant for the trunk roads, you would grant it subject to the roads being passed by the Superintending Engineer?

A.—Yes.

Dr. Hyder. Q.—Does your Engineer use these roads himself on which the tolls are levied?

A.—I think so.

The President. Q.—With regard to Q. 118 you say that the Corporation has resolved "to levy an education tax of ¼ per cent of the annual value of lands and buildings in the city". But they also made a corresponding reduction in the general taxation.

A.—Yes.

Sir Percy Thompson. Q.—With regard to Q. 167 you mean to say that the system in force in the Madras Corporation is perfectly sound?

A.—I think the assessment generally is done reasonably well.

Q.—What I mean is that you don't have the politician moving in the realm of assessments as is the case in other parts.

A.—Not as a rule.

The President. Q.—Have you had any experience of the working of the betterment tax under the Town Planning Act?

A.—I have not; but we are going to work it.

Q.—There was a great discussion as to which should be preferred—betterment tax or acquisition of land?

A.—In that particular case we acquired about 75 per cent of the land and on the remaining we are going to charge betterment tax.

Q.—You do not anticipate any difficulty in assessing the tax?

A.—No.

Sir Percy Thompson. Q.—You charge one-tenth of the value each year?

A.—Yes.

The President. Q.—What are exactly your relations with the Commissioner of Police in respect of licensing and taxing of carriages? What I want to know is this. Recently the Commissioner of Police had to get legislation to secure that the registration fees were sufficient to pay for the expenses. Would it be practicable for you to take over the two functions?

A.—You mean the hackney carriages' licenses?

Q.—Yes. In some places the whole thing is done by the municipal authorities themselves.

A.—There is no reason why the Corporation should not do it, but I should have thought it was more satisfactory for the Commissioner of Police to do it.

Q.—Municipal taxation of liquor shops has been a very difficult question. Can you give us any opinion?

A.—I think the municipality is better free of it altogether.

Q.—You have read the recommendation of the Financial Relations Committee where it was said the local bodies can levy a surcharge on excise revenue. Mr. Moore in his evidence says: "It seems preferable to permit local boards to levy a surcharge to assigning a portion of the revenue to them. If a tax on tobacco is levied, one-fifth of the revenue so raised should be assigned to local bodies. The whole of sale license fees in municipalities may be assigned to municipal councils". There was a time when the Corporation did tax it.

A.—Yes. Of course the difficulty is now that it is all mixed up with the demand for prohibition and there is a constant complaint against the location of shops; and time after time I have asked people to suggest more suitable places if they had any objection, and the answer always is that the shop should be removed altogether.

Sir Percy Thompson. Q.—Will you get anything more than you get at present? The man will take it into account and bid less.

A.—There is no taxation of liquor shops, except the profession tax. I mean at present the municipality gets nothing.

Q.—Supposing you are going to put a special tax on the shops?

A.—I do not anticipate that the liquor shops can yield any greater revenue.

Q.—Any taxation will come out of Madras Government's revenue?

A.—Yes.

The President. Q.—Actually the municipality did try to impose a tax for the storage of spirits?

A.—I think the matter is still undecided. I do not think it has come to an end. I think I can give you a full note on this subject later.

7th May 1925.

BANGALORE.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. A. G. LEACH, I.C.S., Collector of North Arcot, was examined.

Written memorandum of Mr. Leach.

Q. 15.—The analysis (given at page 78 of the Public Works Department Administration Report for 1923-24) of the figures for works in charge of the Public Works Department, for which capital accounts are kept, shows a percentage of receipts to capital outlay of 12.77 and 13.70 for productive works and 1.11 and 1.12 for unproductive works in the last two years. On the face of these figures, it might be said that the charge under productive works was adequate, and that under unproductive was inadequate. Similarly, on minor works for which accounts are not kept, the Board of Revenue's answer to this question shows that the net profit was about 3 per cent on the outlay. But these percentages must not be accepted as correct. In the case of the last, no account is taken of the capital cost. In the case of the P.W.D. figures, I do not know what is included and what is excluded under charges. Taking them for what they are worth, it would appear that the charges under unproductive P.W.D. works and under the vast number of works for which capital accounts are not kept, are not adequate, in the sense that they do not yield a profit upon the expenditure. Whether they are adequate in the sense that higher rates would impoverish the ryots or result in water not being utilised is another matter. But, I should answer that also in the negative.

Here I must emphasize again that in the case of land already registered as 'wet' on the principles that prevail in this presidency, the discussion of methods and principles is largely academic, since it is neither desirable, nor practically possible to upset the existing system. There are two classes of land to which the discussion must be confined: (a) lands in zamindaris, long irrigated by a Government source or dry lands in the ryotwari area, not fit for registration as wet, and (b) dry or zamindari lands to which water is newly supplied by the construction of a new source.

In the case of the first class, the difficulties of increasing the water-rates are, first that it would seem somewhat inequitable to charge a higher rate for water supplied to these lands than for land adjoining them, which are subject to the consolidated wet assessment; secondly, that a proposal to increase the rates would raise a considerable outcry. A committee which sat some three or four years ago to consider a proposal to alter the rates prevailing was dominated by the representatives of the Godavari and Vizagapatam landed interests; and the decision which the committee came to was, that it would be politically inexpedient to introduce an innovation at a bound, but that the question of raising the water-rates should be dealt with by the Settlement Officer at the resettlement. The matter was thus shelved and the rates remain unaltered. Possibly, the commotion would be less, now that large areas in the deltas, which at that time were still registered as dry, have been brought under the consolidated wet assessment. But, the objections from the zamindaris would still be strenuous. As to other dry lands liable to water-rate, which

are usually lands lying on the fringe of the wet area, their owners have no right to complain, since they need not take water if they do not want it, and I do not think (now that the delta area difficulty is out of the way) that there are any reasons for not raising the standard scale of wet rates, fixed forty years ago, and wholly incommensurate with present prices and values. As an instance of the absence of any relation between the charge made for water and what the people are prepared to pay, I may mention that, for several years running under the Periyar project, ryots paid without a murmur a rate of Rs. 15 per acre (levied as a penalty for unauthorised irrigation), and were not deterred from taking water till a rate of something like Rs. 50 per acre or even more was charged.

My answer to the question as regards (a) is therefore that the charge is not adequate. As to (b), up till recent years, the practice has always been to register as wet, in accordance with the settlement principles, lands recently brought under irrigation by the construction of a new source, and it is only under the stress of poverty and of the increase in cost of construction that Government have now been forced to impose special rates: not on any definite principle, beyond that of getting some return on its money, the amount of the return being determined by the certainty of the supply in the source and the capacity of the ryots to pay.

Of the five plans mentioned in the question, the fourth charge by volume can be definitely ruled out. Perhaps, I may refer to a report printed in G.O. No. 1089, dated 19th July 1923, for a detailed discussion of this subject. The fifth plan has not, I believe, been tried in India. The only case in which occasionally it might be adopted here would be where waste land at the disposal of Government is brought under irrigation and put up to auction: this is sometimes done now, though when it is done what is bought is not the water, but the land with the right to water, the rate for water being fixed. I do not think that there would be any advantage in the system of putting up the water to auction: if the auction were annual, there would be all the evils of uncertainty; if for a term of years it would definitely exclude the small owner and put in his place a rack-rented tenantry. To auction the water daily, as is done in Spain at Lorca is out of the question in India. If the system could be worked at all, which is doubtful, it would probably lead to wastage of water and certainly to great difficulties of all kinds.

The third system, if I understand it rightly, is the system which prevails in Madras, where when 'dry' land is supplied with irrigation, it is classified as 'wet' and a combined charge for land and water is imposed. It is an excellent, and in Madras, a well-understood system; but the objection to it in the case of modern projects is, that the system of settlement does not take into account the cost of supplying water. It is, therefore, always uncertain whether, if the present settlement system were adopted for assessment under a new project, the project would result in a loss or not. Nor can this factor be grafted on to the settlement system. The only way, then, of ensuring that a project shall yield a given interest is to add to the assessment for the land a fixed charge for water.

This leaves us with plans (1) and (2). Under (1) the rate would be so calculated as to pay the expenses of providing the water. Under (2) it would be calculated so as to yield a margin of profit to Government over and above the expenses.

I think the use of the word 'commercial' in this connection is rather misleading. In commerce, there is usually competition between suppliers, and the profit aimed at is the highest that can be got, without diminishing the demand. In the case of water, the State has a monopoly, and it cannot look solely to making the highest possible profit. In the words of a former Collector of North Arcot seventy years ago, in discussing rates of land assessment: "Revenue is not the only consideration. The government of a great country is not conducted wholly on the same principles as a mercantile concern. The happiness and comfort, the peaceableness and contentment of the people are also items in the account." It may perhaps be questioned whether "peaceableness and contentment" are a predominant characteristic of those who get water most cheaply and easily, e.g., the ryots of the Godavari and Kistna deltas, but it would be generally accepted that it is not the object of the State to get as much as it can out of the people without regard to other issues.

On the other hand, there is no reason why the State should reap no direct benefit from the great profits which the gift of water puts into the

pockets of the ryots: and obviously, if profit accrues to the State from irrigation enterprises, it will be in a position to extend them further than if it were content with the mere slow recoupment of its expenditure.

I should answer, therefore, that the best plan is one which aims at a fair profit. I suggested in my previous note that the interest aimed at might be about the same rate as the State pays on borrowed capital. [But, of course, interest paid by Government on loans for irrigation should be included in the capital cost of a scheme.]

While on Q. 15, I may say that the conditions of irrigation in the Punjab, as described in the note of the Chief Engineer of the United Provinces, seem to be ideal for the levy of water-rates on the system I have advocated. The soil is uniform, the crop is practically solely wheat, the amount of water required is uniform and without water the land is valueless. That being so, I do not quite understand the Punjab hankerings (as exhibited in the note of evidence) for cropwar rates and periodical variations with reference to prices. I can only suppose that the Chief Engineer of the United Provinces is unaware of the Punjab problems. So am I. But points 3 and 4 in the notes of evidence appear to be contradictory. I presume the explanation to be that the irrigation engineers do not want a variety of crops, since this involves one man taking more water than another, and the Punjab Canal Officer's object has always been to distribute his water as equally and as widely as possible. The desire, therefore, is to penalise the more thirsty crops, e.g., sugarcane. This could be done by levying a special rate on it, high enough either to serve as a deterrent against growing it, or to cover the loss of water-rate on that area on which wheat might have been grown with the same amount of water.

In Bihar and Orissa, the note on the evidence (viz., that the general tax-payer should not pay for a benefit to a favoured class until the charge for water to that class has been pushed up to the highest point possible, short of causing the service to be refused) suggests a desire for an economic water rent, but as the natural supply there is so abundant that it is doubtful whether a cultivator in a given year will take water from an irrigation source at all, and leases on favourable terms have to be granted to induce him to make a contract for a term of years, it is doubtful whether the charge for water could, in fact, be pushed high enough to yield a profit on the cost of the works unless the works are very cheap to construct and maintain. Whether this is so or not, or how the rates for the existing leases compare with the rate that would be necessary to yield a return on the cost of construction, I cannot say.

In the Central Provinces, again (where the whole area under irrigation is only equal to the area under the Kistna delta system in Kistna district alone), where the people are unaccustomed to irrigation, and where in good years, a rice crop can be grown without irrigation, it is clear that there is no question of charging a remunerative water-rate, and Government apparently has to take what it can get, and that apparently is not much. But here again, I have no idea what the rates actually charged are, and whether the irrigation works are run at a loss or not.

Lastly, in the United Provinces, there are (vide the Chief Engineer's note) three district tracts—Rohilkhand, where the rates are low, because a single watering usually suffices to mature the crop: the Ganges Jumna Doab, where conditions seem to be similar to those in Madras, including the fixed wet assessment, and Bundlekhand, where, as the people are largely aborigines and all the irrigation works are of a famine protective nature, low rates are charged. There does not seem to be much opening for the levy of rates based on the cost of supplying water in this province unless perhaps for new projects in the Doab.

The one feature in their irrigation policy that the various provinces have in common is their recognition that in a country where the overwhelming majority of the people are dependent on agriculture, the first duty of the Government is to ensure, as far as may be, against loss of crops, and the question of the cost of doing this has been widely regarded as secondary. In Madras, I think the conditions are now such, that in future projects the question of making them pay should come first, and there is little difficulty in carrying out such a policy. But whether this policy is applicable in other, especially the more backward provinces, is a question which it is impossible for me to answer.

Q. 16.—The system of a betterment tax is in operation in Mysore, but I regret that I cannot now remember the details of its working, and how far it is satisfactory. They may be found, I think, in G.O. No. 2952, Revenue, dated 12th August 1918. Clearly the time when a landowner benefits from the increase in the value of his land is when he mortgages or sells it, so that the appropriate way of taking a share of its enhanced value would be to levy a duty on such transactions. But, as the collection of this duty involves considerable difficulty, and evasion of it would be common, the next best way is to levy an annual betterment tax on the land. This, if I remember rightly, is what is done in Mysore. The Madras Government, however, decided against such a tax. They said: "A system under which a lump sum is recovered from the owner of the land before he has reaped any actual benefit from the irrigation work is open to objection, and a similar objection, though in a less degree, applies to any system of recovery which is limited to a term of years. The proper way to secure a contribution towards the capital cost of an irrigation work is by the levying of a permanent charge in the shape of enhanced water-rate on the land benefited."

It might be answered that the enhanced water-rate is a tax only on the increased produce of the land, not on the "unearned increment" in the market value of the land itself. But an enhanced rent does in some degree diminish the selling value of land, and to that extent the unearned increment is taxed.

And, in view of the difficulty of appraising the increase in value and of collecting the tax on it, the State may be content if it makes a profit on its outlay, "takes the cash and lets the credit go", giving up its claim to share in the enhanced value of the land.

I may add here, though it has nothing to do with betterment, that it does sometimes happen that, when ryots ask for an improvement to an irrigation work, and it is found that even if the rates on the land irrigated are raised (by raising the 'class' of the tank in accordance with settlement principles), the improvement will not prove remunerative, the Collector demands payment by the ryots of a share of the cost of the improvement as a condition precedent to its being undertaken. This method suits certain circumstances (eig., when the ryots are well-to-do, and when the proposal is only to improve an existing irrigation source), but is obviously not suitable for erection into a general principle.

Q. 98.—I should deny the truth of each of the criticisms.

Not only does the land revenue assessment in Madras not ignore 'the ability to pay' of the ryot, but it may fairly be said to be based on his ability to pay. The assessment is based on the productive power of the land, whether dry or irrigated. In theory, the State is entitled to half the net produce of the land. But in practice, it takes a very much smaller share. The assessment is made, briefly, as follows: First, the soils are classified according to their composition and fertility. Next, a grain value is attached to each grade, after experiments to determine the actual outturn of the staple food products on each variety of soil. This grain value is then converted into money, based on the average prices of 20 ordinary years (i.e., excluding famine and bumper years), preceding the settlement in the months during which the grain is sold, with an abatement for traders' profits, and for the distance the grain has to be carried to market. (Both in fixing the grain value and in fixing the average price, an allowance is usually made in favour of the ryot.) Next, the cost of cultivation is deducted. Next, a percentage, usually 20 per cent, on account of the vicissitudes of the season and of unprofitable areas (such as field bunds and channels) is deducted. One-half of the remainder is taken as the assessment on the land.

A further reduction is made in the case of irrigated land, by classifying the irrigation sources according to the adequacy of the supply they can afford. There are usually five classes, with a graduated reduction in rate for each class. In the case of dry land, there is also a grouping (usually two or three groups), so that those villages which are badly off in point of communications, are put in a lower group than those near railways or roads, and the dry lands in them are consequently rated lower than those in villages more favourably situated. Finally, although a large deduction is made for vicissitudes of season, the assessment on irrigated lands is entirely remitted, when the land is left waste, or the crop perishes on account of deficiency of the water-supply. The difference between

the wet and the dry assessment is remitted where on account of such deficiency dry crops are grown. This is, of course, a direct consideration of the ryot's ability to pay.

(2) Nor is it true that the assessments lack the element of certainty. The assessments remain unchanged for a period of thirty years and are then altered only if there has been so great a rise in prices during the preceding twenty years as to justify an enhancement of the rates.

It is true that when water is taken to dry land, the charge for the water varies with the crop, and the system of charging is, in some cases, exceedingly complicated. But the cultivator can, if he wishes, ascertain beforehand from the village accountant what the watering of any particular crop will cost him.

(3) The first sentence is demonstrably false as regards Madras, where the very *fons et origo* of the system was the desire to free the ryots from tyranny and extortion by dealing directly with him. The vast bulk of the land revenue is collected with ease, and as each ryot knows what he has to pay, there is very little scope for tyranny or extortion. No doubt, village officers can and do swindle the more ignorant ryots occasionally, but there is nowhere anything approaching general extortion.

Again, the time of payment is carefully fixed to suit the ryot's convenience. The assessment for the year is payable usually in four monthly instalments, the first instalment month being that in or before which the main wet crop is usually harvested.

(4) Lastly, the figure of 20 per cent for the expenses of collection is, I imagine, much exaggerated. I do not know where it is taken from, or on what it is based. If it is based on the cost of land revenue administration as a whole, the answer is that there is a great amount of work done by the administration which has nothing to do with collection.

Q. 99.—Such inequality as exists is obviously not avoidable; since the original settlements were made in different years and all settlements run for thirty years, some districts must always be due for resettlement in advance of others. But, what one district loses at one end of the settlement, as compared with another, it gains at the other, e.g., North Arcot was resettled ten years ago, Trichinopoly is being resettled now. North Arcot has therefore been assessed for ten years on an average of prices higher than those on which Trichinopoly has been assessed in the same period. But, Trichinopoly will now be assessed on an average of prices higher than those on which North Arcot is assessed, and so on. In the long run, there is no inequality. In any case, it is a matter of small importance.

Q. 100.—Rs. 2,000 is not the subsistence level. This figure was presumably taken as the exemption level, in imitation of the English exemption level of £135 to which it is equivalent. If £135 is the subsistence level in England, it is clearly not so in India, where the general standard of expenditure on food, clothing and housing is so much lower. It is difficult to say what the subsistence level in India is; but it is nearer Rs. 500 than Rs. 2,000.

It would doubtless be easy in many cases to say that an agriculturist's income was below Rs. 500, though there would also be a vast number of debatable "border line" cases. But the argument that such incomes should be exempt rests on the assumption that the land revenue is a tax. However, one may define 'rent' and 'tax'. The land revenue differs wholly from income-tax. The payment of income-tax brings in no direct return to the payer, but in return for the payment of the land revenue, the agriculturist obtains the enjoyment of land. There is a direct *quo pro quo*, and there is no logical justification for exemption in this case.

Q. 101.—I know of no way to check fractionisation. Subdivision of holdings takes place for one of two reasons; either because a joint family property is partitioned among the members, or because A buys a portion of B's land. In either case the parties do not wish to retain a joint interest in the land: each wants to hold his own share separately. It is a natural process, and I do not see how taxation can check it. You can refuse to recognise subdivisions in the accounts, but then you make the collection of revenue difficult, facilitate fraud on the part of the village officers who collect it, and increase the difficulties of amicable settlement between the parties. You can levy a charge on making a subdivision, as has recently been done in Madras: in so far as this is a tax,

it does not serve to check the actual transfer of property: whether it restrains the parties from having the subdivision made, I cannot say, as I have not had sufficient opportunity for observing the effects of it.

The objections to fractionisation are twofold: first, the cultivation of small plots is wasteful; and second, the registry in the accounts of small holdings is a burden on the administration. On the other hand, you cannot stop fractionisation, and if you do not recognise it, disputes about cultivation will neutralise the agricultural advantage of cultivating bigger plots, and the burden of which the land revenue department is relieved will be shifted on to the police and magistracy, who have to deal with fights, and the civil courts who have to deal with less violent disputes.

Q. 102.—If the land is in a zamindari, it is already private property. If it is Government land, it must be assigned permanently, for land is obviously not well cultivated, still less improved, unless the cultivator is secure in his possession of it. The assignment, of course, is subject to the payment of assessment, and power should be retained to vary the rate of assessment. The water should never be allowed to become private property. This amounts to a compliance with the terms of the more than usually sweeping dictum quoted in the question.

Mr. Leach gave oral evidence as follows:—

The President. Q.—You are the Collector of North Arcot?

A.—Yes.

Q.—You have done one settlement?

A.—I assisted in the settlement of Chittoor about 12 years ago, and was a Settlement Officer from 1912 to 1917.

Q.—In 1920 you were put on special duty to examine the whole question of water-rates?

A.—Yes.

Q.—Subsequent to that you were a member of the Water-rates Committee?

A.—Yes.

Dr. Hyder. Q.—I should be obliged if you would tell us the main features of your system of charging for water in this presidency. You have the consolidated charge over the greater portion of the presidency?

A.—Yes.

Q.—You classify the sources, the soils and the crops?

A.—Yes.

Q.—Then again you classify the crops?

A.—We classify the sources and soils but we do not classify crops except to the extent that some crops, for instance, sugarcane, are assessed at a rate equal to two paddy crops. At the present moment I do not think there is any other crop which involves any alteration in assessment. All dry crops are assessed at the same rate and all the irrigated crops are assessed at the same rate.

Sir Percy Thompson. Q.—I am not quite clear with regard to the source of irrigation. Suppose you had five different classes of sources, ten different rates for each source of irrigation. Therefore you would get 50 rates, i.e., 50 different classes, on that assumption.

A.—Yes.

The President. Q.—That is not a practical possibility, is it?

A.—It does not happen very often. There would not be more than about six different soil classifications and five classes of irrigation; but it might happen.*

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* *Note.*—In saying this I was wrong: forgetting that (1) different soils of equal productivity are clubbed together for the purpose of money rates, (2) that money rates usually go in progression, i.e., best soil under 2nd class source is assessed at the same rate as good soil under 1st class source. In North Arcot district, e.g., there are only 18 wet rates.

Sir Percy Thompson. Q.—I do not say in one village but in the same area.

A.—Oh yes, it might, e.g., in a taluk.

Q.—Supposing it is six and five, possibly you will have to multiply it by two for the proximity of the particular village to a railway station.

A.—No, that applies only in the classification of dry lands.

Q.—Why is it so?

A.—On examination it was found not necessary in the case of wet lands, because the classification of sources gives you enough variety of rate. Another thing is that a large wet area makes its own market. That is the theory.

Q.—Surely you have thoroughly inaccessible lands where you have first class sources of irrigation.

A.—It might happen but on the whole it does not. If it is first class irrigation there will probably be a big population and good roads.

Dr. Paranjpye. Q.—Do you cook your rates?

A.—No, there is no cooking of wet rates in regard to the question of communications at all.

Q.—I mean cooking as regards classification of soils.

A.—Well, you can call it scientific cookery.

Sir Percy Thompson. Q.—Assuming land revenue is 50 per cent of annual value or of net assets, when you apply water to a piece of land, the water-rate which you would get is just 50 per cent of the increment, is it not?

A.—I fear I do not quite follow you.

Q.—You have got a piece of dry land and it is assessed at Rs. 2 an acre. Now then you provide a first class source of irrigation and class it as wet land, and you also find that the value of land revenue per acre is being raised from Rs. 2 to Rs. 5. Your water-rate for supplying water is five minus two, that is three.

A.—Yes.

Q.—That is, your land revenue was Rs. 2 before and now it has been raised to Rs. 5. What you should get as real remuneration for the supply of water is Rs. 3, and as both Rs. 2 and Rs. 5 are just half the annual value of the land or net assets, this sum Rs. 3 which you are getting is just half the increment, because the net assets dry were Rs. 5 and the net assets wet Rs. 10. Is that the way it really works.

A.—Yes, I think it could be put in that way, but it is not the way it is arrived at.

Q.—What I want to get at is this. What is the real financial effect of your application of water to dry lands?

A.—It is the difference between the old rate on the land and the rate which you will impose in future.

Q.—Therefore, you give half to the landholder and half to the State. Is that the only effect of supplying water?

A.—Yes. Well the difference between two halves is also half.

Q.—Then if the State only takes half the amount, don't you think that it would be at least justified in claiming more than that?

A.—I should think so. There is no legislative enactment to bar it, so far as I know.

Q.—The landowner has done nothing to improve the land; on the other hand the Government has done much to improve the land. Is not the Government entitled to practically the whole increment?

A.—Yes, but the cultivator or the man who holds the land has presumably done something by way of levelling and manuring the land to bring it to a fit state for the cultivation of a wet crop. Generally speaking, dry land is not level, and levelling is necessary to make it fit for wet crops.

Q.—Would not these be included in the expenses of cultivation?

A.—Not the levelling. The expenses taken into consideration would be the normal expenses of cultivating the wet land. The expenditure incurred on account of converting the dry land into wet land is not taken into consideration.

The President. Q.—Can you give us a set of typical rates for a village wherein there are wet and dry lands?

A.—Wet lands—5; 4; 3.
Dry lands—2; 1½; 1.

Q.—Supposing you take dry lands paying Rs. 2, the water-rate will be Rs. 5 *minus* Rs. 2?

A.—Yes. That is the highest rate.

Q.—The land revenue payable would be Rs. 2 *plus* Rs. 3, that is Rs. 5. That would not be actually the wet rate on that particular piece of land?

A.—If we classify, it would be probably different.

Sir Percy Thompson. Q.—If you have a best class of dry land and a best class of wet land, when you convert the dry land into wet land, does it not follow that the best dry land also becomes the best wet land?

A.—Not necessarily. When you classify the land as wet, you would consider whether it is conveniently situated for irrigation. If it was at the tail of a channel you would probably reduce it to allow for the difficulty of working it.

The President. Q.—Your best dry land might be the black cotton soil and your best wet land might be clay soil?

A.—Yes.

Q.—Then your best dry black cotton soil might be quite unsuitable for irrigation?

A.—Yes.

Sir Percy Thompson. Q.—What you ought to do to get the right water-rate is to see what class the best dry land would fall in if it was wet.

A.—Yes. I think such a scheme was tried in the Cuddapah settlement. Every field which was thought capable of irrigation was given a hypothetical irrigation classification on the assumption that would be irrigated. So when water was taken, the village *karnam* knew how much to charge.

The President. Q.—Just as you did in the Madanapalle settlement?

A.—Yes.

Q.—Can you tell us as a Settlement Officer, when the rate of increase is altered by the Board of Revenue or by Government, how that alteration is carried into effect? Supposing you are told the application of these rates yields an increase of 30 per cent and that you ought to reduce it to 20 per cent, how is the process of reduction carried out?

A.—You mean when the Government orders that the rates should be enhanced by 20 per cent?

Q.—No. Government says that all your proposals are all right and we accept your half net assets, but we do not propose to take more than 20 per cent increase over the last settlement.

A.—You increase all the rates by 20 per cent.

Q.—I mean reducing. Supposing your net assets works out for an increase of 30 per cent and you are told by Government not to make more than 20 per cent and that you will have to make one-third reduction all through.

A.—No. We will take the existing money rates and add 20 per cent to them.

Sir Percy Thompson. Q.—What the calculation shows is that on the total there is 50 per cent enhancement as compared with the last settlement. Now then, Government says that is all very nice, but we want only 20 per

cent. Therefore, you must cook your figures, so that the total is 20 per cent in excess of the figures of the last settlement. What do you do in order to get only 20 per cent and not 50 per cent?

A.—You are assuming that the Settlement Officer has re-classified.

Q.—He has done everything and he has completed his settlement. The settlement shows the revenue to be Rs. 20,000, when in the last settlement it was Rs. 14,000. Government says that it is too big an increase as it is about 50 per cent and we do not want more than 20 per cent. In other words, instead of having Rs. 20,000, Government says it will be satisfied with Rs. 17,000. How do you proceed to reduce this assessment? On what principle you do it?

A.—It is not done in that way. You have a schedule of money rates. If you re-classify, you have a new classification and you have the money rates which you propose and which, according to the rise in prices, would justify, say, 50 per cent more.

Q.—Don't you go and say, the financial effect is this: at the previous settlement we were getting 10 per cent and we are now getting 20 per cent?

The President.—Mr. Leach's point is this. Government would itself manipulate the money rates. The settlement is for money rates and you have got an increase in money rates. Therefore, you know what money increase it produces.

A.—That is so.

Q.—Government itself does it?

A.—Yes.

Sir Percy Thompson. Q.—But what about the next village?

A.—It is generally done on the whole district.

Q.—I think surely there is some limitation in the enhancement which can take place in a village.

A.—No. The limitation is on the enhancement of the holding, but not on the village.

Dr. Paranjpye. Q.—Is it not 100 per cent?

A.—No. On the holding it is not more than 25 per cent.

Sir Percy Thompson. Q.—Supposing your money rates work out to an increase of 100 per cent on the holding, what will you do?

A.—I think I was wrong; 25 per cent of the maximum which can be applied at once. I think if the increment on a particular holding exceeds 25 per cent, what is called the increment remission comes in and it is spread over a series of years.

Dr. Hyder. Q.—You have in this Presidency a system in which irrigation sources and soils are each grouped into three classes, wet, dry and *dufasal.* Is that so?

A.—Very broadly, that is so. The rates do not depend on the crop at all so far as wet rate is concerned. If land is wet, there is no differentiation of crop.

Q.—In your report, you say that in G.O. No. 2712, Revenue, dated the 18th July 1918, new rules were published for criticism, and according to this system, irrigation sources were to be arranged into three groups, and a fixed scale of water-rate under each group was to be charged for crops according as they were wet, dry or *dufasal.*

A.—That does not apply to wet lands.

The President. Q.—Has that system ever been introduced?

A.—No.

Dr. Hyder. Q.—What is your present system?

A.—In some cases, there is a fixed water-rate, which is Rs. 4 an acre throughout the Presidency, and in other cases, it is what is called the differential rate, which is the difference of W—D, with all sorts of varieties according as whether a crop is wet, partly irrigated, etc.

Sir Percy Thompson. Q.—How do you decide whether to apply the differential rate or the fixed rate?

A.—It is done by districts.

The President. Q.—Over the greater part of the irrigated area you have the consolidated wet assessment. In certain recent cases the settlement rates have been departed from, and a special rate which is higher than the ordinary rate has been fixed. That is in what is called the guaranteed area.

A.—Yes.

Q.—Then in about 10 districts you have the differential water-rate?

A.—Yes.

Q.—That applies to areas not guaranteed?

A.—Yes.

Q.—In the rest of the Presidency you have the old rates which were fixed 40 years ago?

A.—That is so.

Q.—The question of revising the differential and the old fixed water-rates has been under discussion for the last ten years.

A.—Yes.

Sir Percy Thompson. Q.—The ordinary consolidated rate applies to ryotwari areas where you can guarantee water and so class lands as wet.

A.—Yes.

Q.—The differential rate applies to zamindari lands?

A.—I don't think so.

The President. Q.—I think the differential rate applies to zamindari lands.

A.—I don't think it applies to zamindari lands in Kistna district, because there is no dry rate to base it upon.

Sir Percy Thompson. Q.—Does the fixed rate apply to zamindari lands?

A.—Yes; also to lands in ryotwari areas in some districts.

Q.—Why do they have a fixed rate as distinct from the consolidated rate?

A.—Only if water is taken to dry lands which have no right to take water, the fixed rate is charged.

Q.—But you could charge the differential rate?

A.—You could.

Q.—You are working towards a differential rate?

A.—We are working away from it.

The President. Q.—In 1918 they decided to abolish the differential rate altogether and go in for the simple fixed rate, but they have not yet succeeded in bringing that into force. It has been under discussion ever since 1918. After your special duty, a Committee of the Legislative Council was appointed to discuss it and the papers were laid before the Council, but the Council refused to have it introduced.

A.—The Water-rate Committee decided that the question should be discussed by the Settlement Officer at the resettlement of a given district.

Sir Percy Thompson. Q.—What is a *dufasal* crop?

A.—A crop which requires irrigation equal to two wet crops.

Q.—Can you have two dry crops in a year?

A.—Yes, but they would not be liable to water-rate.

Dr. Hyder. Q.—So in this Presidency you have no uniform policy?

A.—No.

The President. Q.—In the case of certain new projects, Government have refused to guarantee any area. Although an area ought to have been settled as wet, it has been left as dry, and a fixed water-rate, varying with the different systems, has been introduced.

A.—Yes.

Sir Percy Thompson. Q.—Then there are different water-rates fixed for particular works?

A.—Yes.

The President. Q.—Your proposal was that you should not have different rates for new works, but that you should have special wet rates for them, and you should look to their gradual levelling up as a result of the resettlements.

A.—If the rates on the old wet settled area in course of time came up to the level of your new project rates, the new project rates would at the next settlement be enhanced.

Q.—It is stated in your report that "it may be hoped that the distinction between the new project areas and the rest will disappear in the course of future settlements when the general rates rise to the level of the special project rates." Do you think that under present conditions there is any hope of that taking place?

A.—Probably not. It would all depend on the cost of the new project.

Dr. Hyder. Q.—I should like to know what precisely is your difficulty in the zamindari areas where land revenue is permanently settled, and where the lands receive water from Government sources. Why can't you charge the full commercial value for water?

A.—You do not know what the full value of water is, but apart from that, there is no legal limitation to the charge for water.

Q.—You say that it would seem somewhat inequitable to charge a higher rate for water supplied to these lands than for water supplied to land adjoining them which is subject to the consolidated wet assessment.

A.—I only meant that if you have two fields, one ryotwari and the other zamindari, side by side, the ryotwari bearing a fixed wet rate and the zamindari paying a dry rate to the zamindar and also a rate for water to Government, it would be inequitable to charge the zamindari at a higher rate than you charge the ryotwari.

Q.—On the ryotwari land your position would be that you have a total charge which is varied every 25 or 30 years. On the other, the land revenue is fixed, and the only possible thing to do is to manipulate the water-rate.

A.—That is so.

The President. Q.—Isn't the inequality actually the other way at present? The zamindar is paying a rate which has not been varied for the last half century, while the ryotwari rate is revised every 30 years.

A.—Probably the ryotwari rate is now higher.

Dr. Hyder. Q.—What system would you advocate for your Presidency if you were starting afresh?

A.—We can't start afresh. The question is largely academic.

Dr. Hyder. Q.—Why? Government supplies water to the ryot and to the zamindar. It has got nothing to do with the question of land revenue: you have only to consider the charge for water.

Sir Percy Thompson. Q.—You cannot tell what part of the consolidated assessment is for water and what part for land?

A.—The difficulty would be to break away from the consolidated wet assessment and find a new basis to start on.

Q.—Suppose you charge Rs. 4 water-rate on a piece of wet land which has been wet for thirty years, on what are you going to base land revenue? It ought to be based on what the rate would be if the land were dry. You do not know what it would be if it were dry.

A.—It would be very difficult to put a fresh classification on an old wet land on the supposition that it was dry. I think you would have to depart from soil consideration altogether.

The President. Q.—Would it be possible to arrive at it this way? Your water-rate should at least be not less than what the least favourably situated ryot is ready to pay. If you had a general rate of water-rate and arrived at the consolidated wet assessment on present principles and deducted your general water-rate from your consolidated wet assessment, wouldn't you get a fair idea of the amount due on account of the situation and the quality of the soil?

A.—Yes: the only object of doing it would be to alter your wet rate more freely.

Q.—The more unfavourably situated a piece of land is, the more you have to pay for water under present conditions. The more a project costs, the more it has to pay.

A.—Yes.

Q.—A project like Bhavanasi, which was started as a protective work, is paying twice the rate paid by the best land in the Godavari and Kistna districts. Isn't that a *reductio ad absurdum*?

A.—Yes.

Q.—Your first attempt should be to get a general level of water-rate based on what the ryot is ready to pay in the least favourable circumstances.

A.—Yes.

Sir Percy Thompson. Q.—In other words, it ought to be based on the value of the water to the cultivator and not on the cost of supply.

A.—Yes, but it is very difficult to find what a ryot is prepared to pay.

The President. Q.—You know what he is ready to pay in Bhavanasi: if he can pay it there, he can as well pay it in Kistna.

A.—Yes.

Dr. Paranjpye. Q.—Would you be in favour of doing away with the consolidated wet rates altogether and having a land revenue *plus* water-rate everywhere if you could do it?

A.—Yes, I think it would simplify matters.

Q.—Without attempting to increase the present wet rates, couldn't you divide it on a rough-and-ready basis into two parts, one part being land revenue and the other water-rate? You could ask each cultivator what he considers should be the land revenue part of it and what the water-rate part.

A.—Yes.

Sir Percy Thompson. Q.—What is the object of this division when the total payment is the same? Aren't you contemplating raising the water-rate?

The President. Q.—Would you advocate a uniform water-rate for homogeneous areas and for sources of supply of the same class?

A.—Yes.

Q.—When you have that, whatever else you take from the land under your settlement system is due to the land.

A.—Yes.

Sir Percy Thompson. Q.—It seems to me that the consolidated rate is the fairest thing, because it makes the land pay the added value on account of the water.

A.—The difficulty, if you dissociate the water-rate altogether, is to know what water-rate you are going to charge.

The President. Q.—In Burma they deliberately state that Government is entitled to a larger percentage of the net assets in wet than in dry lands.

A.—Yes.

Q.—In the case of projects that do not pay their way, do you agree that the ryots under them should pay as much as they can be made to pay, short of stopping them from taking the water?

A.—Yes.

Q.—Then you would have a certain debit balance left. Is it right that that debit balance should be met by the general tax-payer or by the people who benefit by the Government's irrigation enterprise?

A.—There is nothing in it. The general tax-payer and the people who benefit by the irrigation enterprise as a whole may be regarded as one.

Sir Percy Thompson.—In any case, even supposing Rs. 2 would pay you handsomely, if it is worth Rs. 20 to the cultivator, you should charge him Rs. 20. The cultivator ought to be made to pay what he can.

The President. Q.—You say in the report that "the only possible policy subject to reservation on the question of famine protection seems to be to make irrigation pay its own way, and the policy is fortunately favoured by the circumstance that the profits of cultivation due to irrigation are so great that the ryots can well afford to pay. It is the only policy economically justifiable, the policy that the consumer must pay. In other forms of State or communal service such as railways and the post office, the normal procedure is to charge the person who travels or sends letters by post, a rate which will make these services pay." What you do there is to put on a uniform rate that will make the services pay?

A.—That is so.

Sir Percy Thompson. Q.—The difference is that anybody can go and buy a railway ticket, but the people who benefit by your irrigation scheme are certain selected people.

A.—Yes: therefore, they should pay more.

Q.—Pay up to what the traffic will bear?

A.—Yes.

The President. Q.—Subject to what you say here about the reservation for famine protection, is it right to charge a uniform rate which might result in some of the more favourably situated schemes paying for the less favourably situated schemes?

A.—I think I should prefer to base the rates under each scheme on the cost of the scheme, i.e., make the person on whose behalf you are spending money pay for it.

Q.—I do not quite see the fairness of that. The benefit they get is the same.

A.—But the question is whether it is worth your while to do it at all.

Q.—You say that the State cannot discount the favours of nature. Why can't it? In Lower Burma, paddy land, to which Government supplies no water, pays a consolidated rate just the same, although no expenditure is incurred.

A.—If you are going to start a new project, how would you fix a rate?

Q.—I should have a general rate which I should vary with reference to prices, say every five years, if variation was needed and if a new project showed signs of paying in due course, I should be prepared to undertake it and pay for it out of the old projects where the favours of nature are helping you.

A.—Yes.

Dr. Hyder.—If that were adopted, surely people who derive benefit from the old irrigation schemes already constructed would oppose new works as they would have to pay for them, so that your Presidency would have to wait for a long while and that has actually been the case in the Mettur project where you have had to wait till people could afford to pay Rs. 15.

Dr. Paranjpye.—The present beneficiary is always up against any extension of irrigation.

Sir Percy Thompson.—What you ought to have charged from the very beginning is the maximum, people are prepared to pay.

Dr. Paranjpye. Q.—If you put it fairly and squarely to the cultivators that for a particular scheme they should pay so much and if they agree to that, is there no objection to their paying more than the surrounding people?

A.—I think that it is inevitable.

The President. Q.—Do you think that the new cultivators under the Mettur project would acquiesce in permanently paying three times the water-rate of the adjacent land for just the same service?

A.—I do not know if you could justify that. But we are bound by the engagement with the people when we fixed the rate.

Q.—Isn't the water-rate variable at the discretion of Government?

A.—Yes, if it is not consolidated.

Q.—Your Water-rate Committee objected to any variation in water-rates except district by district every 30 years, and you say they were dominated by the landed interests.

A.—Yes, some members of it voiced the protests of Godavari and Kistna.

Q.—Aren't the Godavari and Kistna people grossly underassessed in the matter of water-rate?

A.—Yes.

Dr. Hyder. Q.—Godavari and Kistna are permanently-settled areas?

A.—Some are ryotwari and some zamindari. I think they are mostly ryotwari.

Sir Percy Thompson. Q.—In zamindaris, is the water-rate paid by the occupier or by the owner?

A.—I think the practice varies in different zamindaris.

Q.—It is alleged in some parts that the charge of Rs. 4 on zamindari lands is too small. If so, does the zamindar raise the rent?

A.—Yes; in some zamindaris the rent is paid in kind; it is half the crop, so that if a man takes Government water, the zamindar would get the benefit of it.

Q.—Then it must be the zamindar who pays the water-rate?

A.—Yes, I think it depends on the terms of the zamindar's settlement.

The President. Q.—Have you studied the volumetric system?

A.—Yes.

Q.—Mr. Galletti considers it to be quite practicable.

A.—He is an Italian; the volumetric system is widely used in Italy. I don't know what his arguments in favour of it are.

Q.—You have not seen his paper?

A.—No. But can he guarantee that the module will not be interfered with? The question is one of internal distribution.

Q.—You say that the betterment tax is in operation in Mysore?

A.—Yes. I think so.

Q.—You have not had any particulars about it?

A.—I read about it in a G.O. of 1918.

Sir Percy Thompson. Q.—Is that betterment tax in addition to the water-rate?

A.—Yes.

Q.—What is the point in it?

A.—The idea is that your water-rate does not include the whole charge for water.

Q.—If you absorb by means of the water-rate the whole of the enhanced annual value, there is no increased capital value.

A.—No, possibly not.

The President. Q.—No water-rate in India ever absorbs the whole of the increased annual value.

A.—Yes.

Q.—You quote a case in which they are ready to pay down a cash contribution for improvement. The betterment rate is an alternative to the cash contribution. It simply means a terminable annuity.

A.—Yes.

Sir Percy Thompson. Q.—You demonstrate that there is an increment and then you take a part of that increment by means of a betterment tax. If you can charge the increment as much as possible by means of a water-rate, it seems to me that a betterment tax is quite unnecessary.

A.—Yes; I think so. The difficulty is to tax it properly or rather to tax it fairly. It is difficult to force up the water-rate high enough to cover the enhanced value.

The President. Q.—And also you have no law under which you can compel the people under a particular work to take water and pay the water-rate?

A.—No.

Q.—And further, the rate at which you can secure agreement is comparatively low?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—In reply to Q. 98 you say: "Nor is it true that the assessments lack the element of certainty. The assessments remain unchanged for a period of thirty years and are then altered only if there has been so great a rise in prices during the preceding twenty years as to justify an enhancement of the rates". Am I to understand that ordinarily the assessment is not changed after a period of thirty years?

A.—It is changed after a period of thirty years.

Q.—Ordinarily, the alteration in prices is so great after thirty years that there is every justification for raising the assessment.

A.—Yes. I think there is only one district—Cuddapah—where the rates have not been increased.

Dr. Hyder. Q.—What is that due to? Is it because the people are not affected by the rise in prices?

A.—The Settlement Officer, Mr. R. W. Davies, put the case very strongly and Government accepted it.

Dr. Paranjpye. Q.—Does it mean that the old assessment was pitched too high?

A.—No. It meant that although there was a case for increasing the assessment on the basis of prices, the tract was generally backward and subject to famine and it was inadvisable to increase the assessment.

Q.—But surely it means that the old assessment was excessive?

A.—But it was fixed on the basis of prices then prevailing. It was fair from that point of view.

Q.—But there might have been a mistake committed then, or the policy in those days might have been different.

A.—The policy was the same, I think. It was only that there had been no considerable improvement in the district. The rainfall is scanty and the tanks are small.

The Maharajadhiraja Bahadur of Burdwan. Q.—In your part of the world, do you find a growing tendency to oppose periodical surveys and settlements?

A.—Since the Reforms, there has been considerable opposition.

Dr. Paranjpye. Q.—They have also passed resolutions in favour of permanent settlement.

A.—Yes; and it is also now proposed to fix by law the maximum enhancement.

The Maharajadhiraja Bahadur of Burdwan. Q.—Do you think that one way of obviating that difficulty would be either by having the maximum limit of enhancement, as you have just now mentioned, or by having your settlements at longer intervals?

A.—You will have then a greater outcry at the end.

The President. Q.—Does not the fixing the limit of increase tend to perpetuate the existing inequalities?

A.—Quite. The objection is not because enhancement is any more hard nowadays, but merely because political action is altogether more forward than it used to be.

Dr. Paranjpye. Q.—Is it due to the feeling among the Members of the Legislative Council that the village people pay far more as taxes to the Government than the town people do?

A.—No; I do not think so. I think it is due to the general dislike of the rich to have their taxes increased. I do not think it is due to any agitation on the part of the small holder.

The Maharajadhiraja Bahadur of Burdwan. Q.—I am not conversant with your system or the class of people who own land. But in Bengal every man practically owns land; and so the champions of the tenants in the Legislative Council oppose survey and settlement. The middle class cultivator or the middle class tenure-holder is more opposed to survey and settlement than the tenant himself is. That is my experience in Bengal.

A.—Yes. I think it is so here also to some extent.

Q.—You say again in reply to Q. 98 (4) "the figure of 20 per cent for the expenses of collection is, I imagine, much exaggerated". Could you give us the right figure?

A.—I am afraid I have not the least idea.

Q.—Is 20 per cent the margin allowed under your rules?

A.—No; there is no margin. There is no fixed limit at all. I do not know where the 20 per cent came from and on what it was based.

The President. Q.—It has been frequently urged in the Madras Legislative Council that the percentage cost of collection is higher than 20 per cent, and that it is much higher in Madras than in any other province.

A.—Oh, I see.

Dr. Paranjpye. Q.—You say; "the time of payment is carefully fixed to suit the ryot's convenience. The assessment for the year is payable usually in four monthly instalments, the first instalment month being that in or before which the main wet crop is usually harvested". Have you heard of the complaint that the ryot generally does not get the benefit of high prices, because he has to sell his produce immediately after the harvest and occasionally before the harvest.

A.—I suppose he gets better terms even if he sells his crops beforehand.

Q.—He is forced to hurry up the sale of his produce even under unfavourable conditions?

A.—Yes; he may have to sell his crop or a portion of it at once in order to pay the first instalment.

Q.—Therefore, your figures for prices would not generally affect his ability to pay unless you take the prices of that particular time.

A.—If the general average of prices has risen, he will get the same proportionate benefit.

Q.—But your system of payment is such that he is forced to sell even under unfavourable conditions of the market?

A.—Yes.

Dr. Hyder. Q.—Is not there the fear that if the cultivator is allowed time for six months, he might not have anything left with which to pay?

A.—Yes; he might celebrate a marriage.

Q.—It appears to me that there is too much of assessing and assessment work in the villages here. Are these boundary stones over the entire Presidency?

A.—Yes.

Q.—On whom does the original cost fall—on the Government or on the owner of the field?

A.—On the Government.

Q.—If the stones are lost, the cultivator has to make them good?

A.—Yes.

Q.—What is the point of having these stones all over the Presidency? Don't you think that too much of assessment work is involved thereby?

A.—I think it saves a good deal of litigation, although the cost of survey is very high.

Q.—With regard to the question of the cost of collection being high, it appears to me that in your Presidency you keep a number of registers which are not kept in other provinces, so that you have got an abundance of statistical material and that naturally puts up the cost. Is that so?

A.—Yes; I suppose it is so.

The President. Q.—Do you consider that you could reduce or get rid of a number of officers if you kept fewer registers? In other words, do you think more is involved than the cost of paper?

A.—Certainly not.

Q.—How many villages does a group consist of?

A.—Not more than one or two.

Dr. Paranjpye. Q.—Could you not have one village accountant for four or five or even ten villages, if the number of registers was less?

A.—I do not see how you can have a less detailed registry as long as you deal with the ryot direct.

Dr. Hyder. Q.—It is so in the Punjab, where also the Government deals directly with the ryot. Although the land revenue is paid to the headman of the village, the Government really is in touch with the individual ryot, and there the number of registers is less. The *patwari* keeps only two or three registers, and he has five or six or even twelve villages under his charge.

A.—I imagine the irrigation staff is much bigger there.

Q.—Here he does the ordinary land revenue work and irrigation work?

A.—Yes; he records all cultivation and works out what each man has to pay.

The President. Q.—When a large reduction was actually made in the village staff, what was the result in the Council? Is not there a Bill to reinstate them?

A.—Yes; there is a Bill now to reinstate them, though they were thought unnecessary.

Dr. Hyder. Q.—The Council wants to reinstate them and thus provide employment for them.

A.—Yes.

Sir Percy Thompson. Q.—With regard to Q. 100, you take the view that land revenue is a rent and not a tax?

A.—Yes.

Q.—And you rather base that on the fact that the man gets a *quid pro quo*?

A.—Yes.

Q.—But people usually say that he is the absolute owner of the land.

A.—I do not think he is here. I think the State is the owner of the land and he holds it only so long as he pays for it.

Q.—What is his title? Has he not got a *patta*?

A.—Yes; but the *patta* is not a title but rather a receipt.

Q.—Is there any documentary evidence for the terms on which he holds his land?

A.—Not for the individual, except that he holds the land subject to the payment of the land revenue and that if he does not pay it, his land is sold.

The President. Q.—You have got the *chitta* from which the *patta* is extracted?

A.—Yes. I have seen it stated that the State is the holder or the owner of all land.

Q.—And the ryot merely gets certain rights over the land, one of the conditions being the payment of the land revenue?

A.—Yes, the sole condition. This is the basis of all dealings between the Madras Government and the landholders.

Q.—But how do you apply that to land acquisition? It is Government land and yet Government pays the full value?

A.—Yes.

Sir Percy Thompson.—I think it is quite consistent. Government has parted with certain rights which it acquires.

Dr. Hyder. Q.—I do not quite understand the distinction you make between income-tax and land revenue. You say, "The payment of income-

tax brings in no direct return to the payer, but in return for the payment of the land revenue, the agriculturist obtains the enjoyment of land". I should like to be quite clear as to your meaning. Now when a man pays income-tax, what does he obtain? He obtains the general protection of the State in respect of life and property. When a man pays land revenue, what does he get in return?

A.—Even a man who does not pay income-tax gets the general protection; but the man who does not pay the land revenue does not enjoy the land.

Q.—The point is this. A pays income-tax and he obtains protection of his own person and property. B, a land-owner, pays land revenue and he obtains protection of his own person and property. Where is the difference, unless you assume that the land belongs to the State?

A.—B pays for the advantage he gets out of the land and not for anything else. He gets the crop.

Q.—The practice that prevails in insecure provinces like the Frontier or in the Northern Punjab is that the cultivators or the people who own the land pay the land revenue and the Government gives them protection, or rather guarantees them in the possession of the land. That is, the Government guarantees to these people the indisputable right of enjoyment. Secondly, there are people who may not own lands and may not pay land revenue, but they may own cotton mills or any other business and they pay in the shape of income-tax, etc., and they get in return from Government an undisputable right of enjoyment of whatever they may possess. The doubt which is lurking in the minds of many of us is this: if the State does not extend its protection to these people who are in the enjoyment of their property, they may be turned out by anybody.

A.—Quite probable.

Sir Percy Thompson. Q.—Take, for instance, a landlord who rents his land on a 99 years' lease, the tenant builds a house and sublets for 21 years' lease on payment, who is the owner? It is all question of division of rights. The rights of the people are secure in consideration of the payment of land revenue. So it is not a tax.

A.—Yes.

The President. Q.—The present land revenue is the commuted share of the produce; is it not?

A.—Yes.

Sir Percy Thompson. Q.—Is not the payment now made to the State exactly the same thing as a tenant makes to the zamindar? In one case you call it a rent, and in another you call it land revenue.

A.—Yes.

The President. Q.—In answer to Q. 98, you say first that "in theory the State is entitled to half the net produce of the land", and then explain how the assessment is made. In the end you say, "One-half of the remainder is taken as the assessment on the land". Can you tell us what is the percentage taken in the Chittoor settlement which you did?

A.—I am afraid I cannot tell you now.

Dr. Paranjpye. Q.—You say, "I know of no way to check fractonisation". Do you think that any legislation is necessary for the purpose?

A.—As far as I know, no legislation will be of any use.

Q.—Why, it has been working very successfully in other countries like Denmark, Switzerland and others. Not only that, there are laws also which require redistribution of holdings, so that they may be made economic holdings.

A.—I do not know that.

The President. Q.—You say, "You can levy a charge on making a subdivision as has recently been done in Madras". How much is it?

A.—I think it is one rupee per field line.

Q.—You say that inequality due to temporary settlements is obviously not avoidable. This is due to fluctuations in prices which have occurred. Does it work out all right in the long run?

A.—I should think it has so far. In the ryotwari settlements the prices have been rising; of course, they might fall again.

Q.—They have gone up much more rapidly in some periods than in others.

A.—I suppose they have gone up a great deal in the last few years.

Sir Percy Thompson. Q.—Is it not a gamble rather than an inequality? It is like income-tax: when you have high profits you pay more, and when you have low profits you pay less.

A.—You cannot get any particular equality in taxation.

The President. Q.—Would it not be practicable to work a system similar to that obtaining in Australia? You have three factors. First, you have a valuation staff which values the land just as your settlement department does. Then you have the Government which would fix the rate. Lastly, you have the Collector who would apply the rate to the valuation. Would you apply the system of valuation, the rate being fixed for the time being by the Council?

A.—That could be altered at will.

Q.—No. As the districts fall in for resettlement, you will have to substitute for the settlement of the revenue the valuation of each holding.

A.—How would the valuation be done?

Q.—Just like in the settlement, applying the same principles.

A.—In what terms would it be expressed?

Q.—On the annual value, so much per acre.

Dr. Paranjpye. Q.—Would you go still further and say that the valuation for this piece of land is so much grain? The Council will fix such and such a percentage, and the Collector will apply that percentage and take not so much percentage of the grain, but the percentage of the price, or the average price value of the grain.

A.—I think it will be a very difficult thing to do in that way. It will be very difficult for the legislature to settle the tax.

The President. Q.—They would fix one uniform rate for the whole Presidency.

A.—But I mean varying the rate.

Dr. Paranjpye. Q.—No, it would be just like the Finance Bill. It will be fixed every year.

A.—There will be a good deal of uncertainty; the ryot cannot know what he has to pay in a particular year.

Q.—But he knows what the valuation was.

A.—May be.

Q.—At present it is a very difficult thing. Do you think the valuation system will be practicable?

A.—Yes. The settlement has been done, but the valuation has not; at any rate, in the original settlement the valuation is there, and to make a new valuation will be a big undertaking.

Q.—You only undertake it in lieu of resettlement?

A.—Yes, but the original settlement took a long time to do, an extraordinary long time, say, four or five years.

Q.—Why should the valuation take more time than a resettlement? It could be done on the basis of your accepted doctrines for settlement purposes.

A.—But I do not think the facts can be known enough to be accurate.

Mr. A. RAMAIYA, M.A., F.R.E.S., Vakil, Madura (South India), was next examined.

Written memorandum of Mr. Ramaiya.

I have carefully gone through the questionnaire prepared by your Committee, and I find that, except with regard to questions which require for their answer statistical or official information, or knowledge of particular

local conditions, to which I have no access here, my views with regard to most of the other questions which deal with general principles and their application to British India, are expressed in my recently published book 'A National System of Taxation' of which I believe, I have given a copy to your Committee. If your Committee does not possess a copy I shall be glad to send them one.

Your Committee's questions relating to income-tax do not appear to me to be quite comprehensive, or to deal with all the aspects of the subject. As a person who has made some special study of the subject of income-taxation, and who as a professional lawyer, has had also something to do with income-tax cases, I have to bring to the notice of your Committee, that the existing Income-tax Act in British India, though a considerable improvement on its predecessors, is still very defective and requires rectification in important particulars. Some of the more important defects have been dealt with in my book, and in the note on 'The Machinery and Methods of Assessment' which I sent you in November last, and I only propose here to invite your Committee's attention to some other defects.

(*a*) The proviso annexed to Section IX (2) of the Act says that where house property is in the occupation of an owner for his own residence its annual value shall be deemed not to exceed ten per cent of the total income of such owner. It will be seen from this that the annual value of residential houses is made to depend upon the varying total incomes of the owners. The incomes of business men in general, and of all those persons whose incomes are earned abroad and who are not bringing all their incomes into British India, seldom are uniform and vary a great deal from year to year. In spite of the fact that they live in palatial buildings, costing lakhs of rupees (I have in mind in particular the Nattukottai Chetty community of Southern India) they escape income-tax to a very large extent on the annual value of their house properties, the estimation of which is not in any case to exceed 10 per cent of their total incomes accruing in British India. In place of the existing provision for estimating the annual value of house properties, in the occupation of the owners themselves, I would suggest that the same may be fixed at 5 per cent of the capitalised market value of the property to be determined once in five or six years.

(*b*) Sub-section (2) of section IV of the Act exempts from the income-tax and does not even include for purpose of determining the rate of tax to be applied, incomes accruing and arising out of British India. From the standpoint of fiscal justice, this provision is not in any view defendable. It cannot be denied that persons who reside in this country and enjoy the social advantages of such residence, owe a duty to the Government of this country, irrespective of the sources whence their incomes are derived. Most of the rich Nattukottai Chetties of this part of India have their business outside British India such as Ceylon and the Federated Malay States, and scarcely bring their incomes here, leaving the same to accumulate there, tenfold, twentyfold and fiftyfold for a series of years. So that, in spite of the fact that they hold very high social positions in life, and enjoy all the amenities of such life in this country, they pay little tax to the Indian Government. The absence of an income-tax in such foreign places as, for example, Ceylon, where they conduct their businesses, is a great inducement for them, not to bring their accumulated wealth to British India at all. Further, even if they should, at any time, transfer their accumulated wealth to this country, they practically escape paying the Indian income-tax because under the Act, only incomes which have arisen within three years of their being brought into this country and not accumulated incomes of earlier years, are liable to be taxed. If the income-tax should be just in its operation, this sub-section (2) of section IV of the Act should be removed, and all incomes whether arising within or without British India should be made liable to pay the tax. [This in a way covers the second half of question 46 of your questionnaire.]

(*c*) With regard to double taxation, judged in the light of the suggestions contained in the Report of Double Taxation submitted to the Financial Committee of the League of Nations by Professors Seligman, Einaudi, and Bruins and Sir Josiah Stamp, it appears to me that the provisions contained in section 49 of the Indian Income-tax Act are highly satisfactory and economically as well as financially advantageous to this country. The only thing needed is that the provision should be extended to all foreign countries within the British Empire, and not confined to the United Kingdom alone as at present.

(*d*) Having regard to the method of life led by the generality of people in this country, it is very regrettable that under the existing income-tax law there is no provision under which an assessee can claim deduction from his taxable income of the interest he pays on amounts he has borrowed for family or other purposes. Only in the case of business people allowance is made for interest paid on capital borrowed for their business purposes only. Most of the rich and middle class people in India, especially the land-owners, are not carrying on any such regular business as contemplated by the definition of the term given in the Act, but are in the habit of lending, doing business jointly with others, borrowing in their own individual names, paying interest on amounts borrowed, and so on. In such cases as well as in the case of business men themselves, who have borrowed for other than business purposes, the income-tax authorities are refusing to make allowance for interest paid on amounts borrowed. It appears to me that it is harsh and unjust to tax the incomes accruing to individuals without deducting the interest they pay on amounts borrowed for whatever purpose.

(*e*) One other point which I wish to bring to the notice of your Committee is that the existing rates of income-tax and super-tax on incomes of foreign companies accruing and arising in British India are too low, especially when we have regard to the fact that their shareholders are foreigners whose incomes are not available for the Indian income-tax. I would suggest that a distinction should be made between Indian and foreign companies, and that the latter should be made to pay income-tax and super-tax at higher rates.

With regard to the other taxes dealt with in the questionnaire, I believe I have in my book sufficiently suggested and indicated, though not elaborated, the lines on which they should be reformed and regulated. By oversight I did not send the annexed note on "The Administration of Customs and Excise Duties" when I sent you the note on income-tax. I am sending it now and it may be read as a continuation at end of Chapter B of my book.

So far as the division of taxes between the general and Provincial Governments is concerned, my own view is that India is in some respects a federal, and in some others a unitary State and that the experience of other countries will not be of much help in guiding policy here. I would suggest that while the existing distribution of the taxes may well be maintained, the tax laws should be made uniform for the whole country, and left entirely under the control of the Central Government, so that not only the burden of taxation but the methods and machinery of administration may as far as possible be uniform throughout the country.

Finally with regard to the whole scheme of taxation referred to in Q. 26. I wish to bring to the notice of your Committee, that though the principle of 'Faculty or Ability' to pay may have been until now the prevailing and accepted principle of taxation, a new and more comprehensive principle founded on the theory of 'Maximum Social Advantage' and 'Minimum Social Sacrifice' is now coming into greater prominence, as a result of a wider understanding of the conditions of social well-being, and is sure soon to become the sole determining factor of taxation policies. In this connection I may invite the attention of the Committee to Professor A.C. Pigou's great work 'The Economics of Welfare' (especially part IV of the book), and to the essay on 'National Taxation after the War' contributed by the late Professor Alfred Marshall to 'After War Problems' by the Earl of Cromer and others, edited by W. H. Dawson.

Customs and Excise Duties, Methods and Machinery of Administration.

So far we have considered the principles that should govern the regulation of customs and excise duties, and made some suggestions as to policy. We shall now pass on to consider the methods and machinery of administration best fitted for a successful working of the policy.

The first thing necessary for ensuring success in tariff administration is the making of a proper tariff. Articles of human consumption being innumerable and very varied in kind and quality, no mere classification of them into necessaries and non-necessaries will be sufficient for the proper forming of a satisfactory schedule of rates. Leaving necessaries as a class by themselves, to be distinguished by their characteristics of satisfying the absolute requirements of human existence, we find that among non-necessaries there

are various kinds of commodities, all of which have to be elaborately distinguished and differentiated, if the actual working of the tariff should produce the results contemplated by the principles of policy enunciated in this chapter. Articles of comfort have to be differentiated and classified according to their respective degrees of usefulness, while superfluities and other undesirable commodities will require to be distinguished according to the degree of their objectionableness. Again in all classes of cases, owing to the great diversity that exists in industrial processes and products, it becomes just and necessary that different rates of duty should be imposed as between different grades and qualities even of one and the same kind of commodity. Sometimes differential rates will also have to be employed, either owing to a policy of imperial preference or owing to mutual treaty obligations with foreign countries, in both of which cases, articles of particular description or with particular manufacturer's names or labels, will have to be specially treated by the imposition of lower than the ordinary rates. The following table will convey an idea of the extent to which specialisation of grades with reference to imported articles has been carried in the tariffs of the great commercial countries.

Country.	Number of Tariff. Ratings.
Australia	450
Austria	657
Bulgaria	562
Canada	751
Denmark	301
France	654
Germany	946
Japan	647
Norway	753
Roumania	854
Russia	218
Servia	670
Spain	718
Sweden	1,311
Switzerland	1,164
Union of South Africa	175
United States	481

Compared with this, the existing schedule of tariff rates in India shows that the duty paying articles of import there are grouped under not more than 149 heads, giving rise to much overlapping for want of sufficient elaboration of the tariff. There is not that minute division into classes, grades and qualities, which characterise the ratings in other countries. The result of this is that in the case of those articles on which specific duties are imposed, the cheaper varieties come to be taxed at comparatively higher rates in proportion to their value than the more costly varieties.

If the tariff policy of India is to be regulated in accordance with the suggestion made in the preceding pages the tariff ratings with regard to home produced exciseable articles, as well as to imported and exported articles, will have to be imposed on more specialised lines, having due regard in the case of comforts to the degree of their usefulness, and in the case of undesirable luxuries, the degree of their noxiousness, and in all cases, to the nature and value of the particular kind or grade of goods dealt with.

The next thing that we have to consider in connection with the administration of the tariff, is the form in which both customs and excise duties should be imposed. There are two forms in one or other or a combination of which they may be imposed, namely, specific and *ad valorem* duties. Specific duties are fixed sums levied on every defined weight, quantity or measure, as the case may be, of the commodities on which they are imposed, while *ad valorem* duties represent a percentage rate of the value of commodities. Each system has got its advantages and disadvantages, each having the opposite qualites of the other, so that it is really a very difficult task for those responsible for the tariff administration of a country to make a proper choice between the two. If specific duties should be imposed, the more or less permanent feature of their imposition and the certainty with which they are collectable will make the task of customs and excise officials simple and easy, and what is more important, lead to little friction between them and

the importers, exporters and producers with whom they may come in contact. And there will also be little opportunity for the fraud easily possible and common in cases of *ad valorem* duties. But one great disadvantage of specific duties is that they fail to take into account the changes in prices of the commodities on which they fall (unless the duties themselves are revised periodically with reference to the changes in prices), so that the actual burden that they may impose on particular articles may be heavier or lighter than what was intended to be contracted by them. Further, they require for their efficient working an elaborate and detailed classification of articles, and a differentiation of their various grades and qualities, so that unfair charging of uniform amounts on articles of different values may not occur.

On the other hand *ad valorem* duties, in spite of their theoretical perfectness, will lead to the fraudulent undervaluation of their goods by those who are affected thereby, in order that they might escape paying duty on the full value of such goods. To prevent this, an elaborate and efficient machinery of appraisement will have to be provided, and for keeping the appraiser in knowledge of the changes in prices of the articles dealt with by them, an independent staff for ascertaining and publishing such changes in prices will also be necessary. Further, a system of *ad valorem* duties, though it has the advantage of automatically adjusting itself to the prices then and there current, tends to have an unhealthy influence on mercantile contracts, leading often to malignant forms of speculation in business. Neither of the two systems being thus quite satisfactory, we are led to consider a special combination of them, known as 'tariff valuation'. This last may be described in the words of the Indian Fiscal Commission as follows: "The principle of a tariff valuation is that the Government from time to time determines the value of the article for purposes of assessment, and thereby relieves the customs officials from this part of their task. The sanctioned *ad valorem* rate is then applied to the conventional value fixed for the article. The tariff valuation is thus equivalent to a system of specific duties adjusted from time to time to meet fluctuations in prices, the basis of the duty remaining a uniform *ad valorem* rate. This system to a large extent combines the advantages of both specific and *ad valorem* duties. The collection is as simple as the collection of a specific duty. The importer also is able to calculate ahead approximately what duty he will have to pay. If the adjustments are made at frequent intervals, the intentions of the Legislature in regard to the rate of duty will not be defeated by fluctuations in price, and the public will know the exact rate at which the duty is being levied." There is no doubt that this method of combining the principles of *ad valorem* and specific duties minimise the disadvantages of each of them taken singly. The only thing that we have to determine is the basis on which the tariff valuation has to be fixed. The Indian Fiscal Commission suggest that it may be fixed once every year, on the average of the actual prices, that prevailed during the preceding three years. This suggestion has much to commend itself and may be adopted. But it may well be doubted whether for bringing tariff values as far as possible in close proximity to the actual market prices that might prevail during the period for which they are to be in force, it will not be desirable to have quarterly or at least half-yearly revisions of such values, basing them on the average prices for the quarter or half-year immediately preceding.

One further point that we have to consider in connection with the methods of tariff administration is the prevention of smuggling. The temptation to smuggle arises out of a natural propensity stimulated by the love of gain resulting from a successful evasion of duties. Out of the three kinds of duties which have been dealt with in this chapter, smuggling can be practised only with reference to import duties. No smuggling is possible in the case of exports as articles in such case must necessarily be going out of the control of the intending smuggler. With regard to exciseable articles, secret production may evade the duty, but an efficient excise machinery like the existing Salt and Abkari Department can effectively obstruct and discourage any such operation. It is in the matter of import duties that the designs of the smuggler have to be contended against.

The prevention of smuggling is not only important for a successful working of the tariff policy proposed in this chapter but essential from the standpoint of developing the virtue of the community itself. A vigilant and incorruptible staff of customs officials, a sufficiently penal legislation and the adoption of low rates of duty on articles easily capable of being smuggled are the only remedies against it. To stimulate a detective spirit and honesty

of work in the customs officials, any amounts up to the value of a third of the contraband articles detected may be offered to the detector, the remaining going to the Government; for discouraging the propensity to smuggle among smugglers, besides confiscation of the articles contrabanded, very severe punishments (such as rigorous imprisonment extending up to 1 year) may be imposed on the delinquents; while in order to weaken the inducement for smuggling, articles which are small in bulk and likely to escape even the most vigilant search, whatever be the class to which they belong, may be charged not more than a nominal rate of duty so that nobody should think it worth his while to smuggle it.

In these ways smuggling will have to be combated. But in the case of India one additional opportunity for smuggling notably exists, and as to be got rid of, if the tariff administration of the country should prove efficient and successful. This arises out of the existence of the French, Portuguese and other foreign possessions in this country having their ports in some places on the sea coasts of the country. These foreign possessions are not subject to the Indian tariff regulations; and their ports being freely open to articles of import and export, the most common form of smuggling in India is practised on the border line between these foreign possessions and British India. Owing to the unmanageble length of the line, efficient watch and supervision become extremely difficult if not impossible. And to add to this, corruption being most rampant among the officials stationed on the line, the working of the Indian tariff is much hampered and its intended effects considerably compromised. To remedy this situation, the only course is to get extended by means of treaty arrangements or other diplomatic negotiations the British India tariff to the other parts of India belonging to the foreign nations, so that there might be a single and uniform system of tariff administration for the whole country.

It will be seen from the preceding paragraphs that the successful working of a tariff system requires among other things the existence of a competent machinery for its administration. Of course the ultimate control and responsibility as to the broad principles of policy to be followed shall vest in the Legislature. But the details of working will have to be entrusted to a special body of experts endowed with knowledge and experience in the framing of tariff schedules and putting them in action. Such a body may take upon itself the whole direction of the administraton besides investigating into and determining the details of tariff policy. Like the United States Tariff Commission, it may be composed of six members, half the number consisting of men of wide general attainments in politics, economics and law, and the other half, of experienced and distinguished members of the Customs and Excise Department. Below this Board of Tariff Commissioners and acting to their direction there must be established a Central Customs and Excise Department for the whole of India, with convenient administrative subdivisions beneath it, for the purpose of carrying on the work of assessment and collection. In this connection the tariff organisation may also wherever possible, especially in relation to excise duties, make use of any machinery that might exist for land revenue, income-tax, and other taxative purposes, and thus effect considerable economy in the costs of the administration. Also the existing Statistical Department of the Government of India may after necessary elaboration, he well utilised for the business of ascertaining and publishing the fluctuations in market prices of taxable comodities which, as we saw, would be required for determining tariff valuations. If on these and similar lines the tariff machinery in India should be reorganised and supplemented there can be little doubt that it will conduce greatly to efficiency and economy in the working of the system as a whole.

Note on the method and machinery of assessment and collection of Income-tax.

One great difficulty in connection with income-taxation is that the assessment depends in most cases entirely on the returns made by the assessees themselves. Taxation being essentially a sacrifice from the standpoint of the individual, it is to the self-interest of every one who is liable to pay a tax to try to escape from it as best he can. This is particularly true of the income-tax. Generally speaking, the income of a person being his private personal acquisition, neither the amount of it nor the exact source from which it is

derived can with any certainty be gauged, especially when the person concerned is particularly interested in not disclosing it to others owing to the fear of heavy liability to income-tax. There is thus a fundamental difficulty connected with assessments to income-tax, on account of the difficulty of ascertaining the amount and sources of income of individuals.

But Governments are not thrown into helplessness or despair on this account. In actual practice both in India and elsewhere, there are three working methods which though not perfect or exact in themselves, are fairly capable of satisfactory results. They are (1) the method of stoppage or deduction at source, (2) the method of direct assessment on return of income and (3) the method of presumptive assessment.

The first method is considered to be easy of application and so far as it goes, certain of its result. What it does is that it makes it incumbent on pain of their own liability on all those who are responsible for paying any income by way of salary or other remuneration to others or by way of interest on securities to deduct the income-tax due from such incomes and remit it to the Government Treasury. They are also paid a small commission for their trouble of assessing and collecting the tax. This is undoubtedly a very good method of assessment. But unfortunately it is incapable of wide application. At best it can apply only to two heads of income, namely, 'salaries' and 'interest on securities' where the incomes are paid to the assessees by third persons who being paymasters can effectively control the sources of such incomes. In other cases such as professional and business earnings and incomes derived from property, none except the assessees themselves have any control either over the source or the amount of their incomes. Hence it is impossible to apply the method of stoppage at source to such incomes. Again, besides being restricted in its scope and application, the method has also an inherent defect about it. As it is, it can affect only those amounts of a person's income which he derives either under the head of salary or interest on securities. His cumulative incomes from all sources cannot be reached by it. Two difficulties arise from the situation. In the first place the rate of tax at which the deduction is made at source is fixed in a case of salaries, on the estimated income of the assessee under that head alone; and in the case of 'interest on securities' at the maximum rate. In the former case, unless the method of deduction at source is supplemented by a general direct or presumptive assessment of the whole income of an assessee, the assessee may escape from income-taxation at the particular rate or rates at which his total income should be assessed. For example, if a person gets Rs. 100 per mensem as a schoolmaster, and Rs. 1,000 a year by way of interest from property investments, he will escape from the income-tax at each source as the amount in each is less than Rs. 2,000, unless he is compelled to make a return of his total income or a presumptive estimate is made of such income. If either of these two courses is necessary to determine his total taxable income, then the method of stoppage at source with reference to a particular portion of his income becomes unnecessary and useless. Similarly in the case of 'interest on securities' the deduction at source would appear to be equally unnecessary. In this case, the maximum rate has to be charged and deducted whatever may be the amount of income; and if the assessee by whom it is paid later on proves that his total income from all sources is chargeable at a less than the maximum rate or not chargeable at all, he is made entitled to a refund of the sum excessively collected from his income. For this purpose his total income will have to be determined and the whole course of procedure prescribed for direct assessment on return of income by the assessee himself will have to be gone into. Thus there will be duplication of administrative business, with no corresponding advantages. In the second place, the method of deduction at source unless supplemented by one or other of the other methods may fail of its effect, if the assessee derives income from various sources, some of which are salaries or interest on securities and some others professional or business earnings. A grocer for example, may, besides earning Rs. 1,500 by way of his business, get interest on invested securities to the extent of Rs. 500. His grocer's earnings will completely escape tax, unless he is compelled to make a return of his total income for purposes of income-tax. Thus the method of stoppage at source is by itself ineffective unless supplemented by one or other of the other two methods.

The method of direct assessment based on the assessee's return of income, and the method of presumptive assessment may next be considered. Both these methods deal with the total income of assessees. Every person who in

the opinion of the Income-tax Officer is liable to income-tax is asked to make a return of his income from all sources, and on being satisfied with such return, the Income-tax Officer assesses the total income of such person. If any one so asked fails to make the return, or having made the return, fails to satisfy the Officer as to the correctness of it, the Officer proceeds to make the assessment to the best of his judgment. When the assessment is based on the return of income made by the assessee, it is termed here 'direct assessment'; if it is made on the Income-tax Officer's own estimate of the assessee's income, owing to the latter's failure to make a return, or having made it, to give satisfaction as to its correctness, the assessment is termed 'presumptive assessment.' Both these methods are employed in income-tax administration in British India. But it is clear that from the point of view of the assessees, the presumptive method is the more dangerous of the two, inasmuch as it proceeds on mere inferences and secret inquiries behind the back of the assessees themselves. With his natural desire to penalise the defaulting assessee, and in his anxiety to err more on the side of an excessive estimate the Income-tax Officer cannot be expected to arrive at anything but an unfavourable estimate so far as the assessee is concerned. He proceeds on information obtained from local enquiries, and observations made on the standard of life, social connections and other external circumstances of the assessee and his family. Of course the assessee has no right to complain of any injustice that might arise in this connection. For its prevention lies in his own hands. If he would make a return of his income there is no need for resorting to any presumptive method, except if, to test the truth of such return in cases in which, on account of non-production of account books when required or for other sufficient cause, the Income-tax Officer has reason to suspect the correctness of the return made. Thus from the point of view of the assessee it is to his advantage that a direct assessment is made on the basis of a return of his actual income. From the point of view of the State it is to its advantage also that assessments are made on the actual incomes of individuals. The presumptive method though highly valuable in estimating small, moderate and ordinarily rich incomes, often proves inadequate in dealing with the highly rich. For when incomes exceed a certain limit, they seldom have any effect on the standard of life or apparatus of comfort, and it becomes almost impossible in such cases to make any presumptive estimate of a person's income or wealth, having regard merely to his external circumstances. Local enquiries help little, as it is very difficult to gauge the extent of a person's income, especially when it is very high and due to professional or business earnings. In these cases unless the assessees themselves are compelled to make a return of their incomes, the Income-tax Officer will simply have to experiment and make presumptive estimates of their incomes increasing such estimates year after year, until the assessees are forced by self-interest to make a disclosure of their actual incomes and show that the estimates are excessive. This process of experimentation may be financially disadvantageous to the State, if it should extend through a number of years before the actual incomes of assessees are to be ascertained. Thus in the interest of the State as well as of the individual, the direct method of assessment for ascertaining actual income is safe and desirable. The only defect in the method is that the return of income has to be made by the assessee himself who is naturally interested in evading the tax as far as possible. But this defect can be minimised by a legal insistence on all assessees maintaining account books regularly in the usual course and in proper order. In that case there will be a fair certainty about the course of conduct of the assessees, and the nature, source and amount of their incomes. It may be confidently hoped that accounts kept in the usual course of the ordinary business of life are more likely to be correct than not, unless it be that any assessees would keep a plurality of accounts in order to deceive the income-tax authorities with one and maintain business transactions with another. This latter propensity can however be effectively prevented by putting the income-tax seal annually on the account books of all those who maintain accounts and declaring by an Act of the Legislature that in the case of assessees to income-tax no other books of accounts should be received in evidence in civil courts. A statutory compulsion to maintain accounts and make an annual return of one's income, and produce one's account books for inspection by the income-tax authorities when required once a year, or any other like provision conducive to the ascertainment of individual incomes will contribute substantially to the success of income-tax administration in any country.

Under the existing income-tax what obtains is that except in the case of companies which are compelled to furnish a return of incomes every year,

every other person, whose total income is in the opinion of the Income-tax Officer of such an amount as to render him liable to income-tax, is called on by means of a notice to make a return of his income that accrued during the previous year. The Income-tax Officer has also a discretion to require the production of accounts, documents and other evidence. Refusal on the part of an assessee to comply with any of these things is made punishable by the imposition of some penalties. If all the necessary materials are furnished, the assessment is made on the basis of such materials. In the absence of any or all of them, the Income-tax Officer makes the assessment to the best of his judgment. It will be seen from this that in this country there is no compulsory system requiring the maintenance and production of accounts by all persons who are liable to pay income-tax. Even a return of one's income is made necessary only when notice requiring it is served on him. Whether any person gets an amount of income sufficient to render him liable to income-tax or not, is left to the opinion of a single Income-tax Officer whose presumptive estimates may not be searching. There is no safeguard against the maintenance of a plurality of accounts by assessees, and the penalties imposed for concealment of income and failure to make returns or produce documents are too gentle to be effective. If income-tax administration in India should be efficient, and assessments just and proper, a reform of the existing means and methods of assessment is imperative. In the first place the existing machinery for determining who are and who are not chargeable to income-tax is inadequate for the task. The Income-tax Officer's opinion whether any person's income amounts to so much as to render him liable to income-tax or not, is conclusive on the point. There is no competent person or body of persons familiar with local conditions and equipped with local knowledge to supervise, check and correct his opinion whenever it is defective. He is further a changing official, and more often than not unfamiliar with the locality over which he for the time exercises jurisdiction. So what is wanted is a more competent machinery of assessment to deal with local conditions. The best way of achieving this is to appoint a Local Board of Income-tax consisting of honorary members chosen from the people of the locality, to correct and supplement the work of the Income-tax Officers who may be better termed 'assessors'. An independent official called 'Supervisor' may be appointed over two or more assessors' divisions, for the purpose of checking, inspecting and independently enquiring into the work of the assessors. An improvement of the machinery of assessment in this or similar manner, will conduce to greater thoroughness in the work of assessment. Secondly, in the case of all persons getting incomes chargeable to income-tax, maintenance of accounts showing their stock of wealth and acquisition of income should be compelled. On the service of a notice on each such person it must be made obligatory on his part to make a return of his income during the previous financial year, and produce his account books also for the same or any longer period as it may be required by the notice. Failure to comply with the notice should be severely punished by the imposition of a heavy fine not exceeding say, a thousand rupees; and in addition to this a penal assessment not exceeding twice the amount of tax payable by the assessee on any presumptive estimate of his income or otherwise should be leviable from him. Perhaps it may be said that these penalties are too severe and may prove oppressive in the case of persons who are not in the habit of keeping accounts. But the very purpose of such penalties is to create a habit of keeping accounts and compel an honest and accurate declaration of incomes. Thirdly, the prevention of fraudulent and plural account keeping is also necessary. The temptation to do this would be strong when other ways of evading or escaping the tax are not easily possible. It is by no means easy to suggest a remedy for this, but it may be suggested that the temptation can be effectively checked by prescribing a kind of annual registration of account books for income-tax purposes and making the use by assessees of any other than such registered books of account, punishable under the Indian Penal Code (*cf.* The Ceylon Ordinance). One of the most important conditions for ensuring correct returns for purposes of income-tax is the enforcing of an adequate system of account-keeping by assessees. Most of the disputes that now exists between the tax-payer and the Income-tax Officer arise in some cases from the absence of a proper system of keeping accounts and in others from inefficient and fraudulent methods of keeping the same. It cannot therefore be too much insisted that a system of regular account-keeping is essential for a just administration of the income-tax. Compulsory account-keeping has also an educative value, as it tends to promote the virtue and intelligence of the members of the community in this direction.

We may next consider the constitution of the machinery that exists for assessment and collection of income-tax. Before the passing of the new Act of 1922 there was no separate organisation for income-tax administration. The Board of Revenue in each province was the chief controlling authority and the land revenue organisation in each district was generally utilized for purposes of income-tax also. There was no need for a separate income-tax machinery as until very recently the tax itself was unimportant and contributed but any insignificant proportion of the public revenue. It was only the vast growth of public expenditure, due mainly to the stress of the recent Great War that increased the tax burden of the country in all directions and necessitated an enhancement in the rates of income-tax making it a prominent source of revenue to the State. It is now one of the main contributories to the revenue of the Central Government, and has the chance of becoming more prominent still if the tax is to be reformed and regulated on the lines suggested in this chapter.

The new Act, with a view to organise a separate self-contained Income-tax Department for the whole of British India under the direct control of the Central Government, has provided for the following classes of Income-tax authorities: (1) At the head there is a Board of Inland Revenue consisting of one or more persons appointed by the Governor-General in Council and forming the central controlling authority, with full powers to make rules and direct the administration for the proper working of the Act. (2) There is a Commissioner of Income-tax for each province appointed by the Governor General in Council and taking the place occupied by the Chief Commissioner of Income-tax for the Province under the old Act, but not being, as the latter was a member also of the Provincial Board of Revenue. The Commissioner is the head of the Income-tax Department for the province and ultimately responsible for the assessment and collection of the tax therein. He supervises the general administration of the Department, makes reference to the High Court whenever any question of law arises, exercises powers of review in all cases, and appellate powers in special cases. (3) Subordinate to the Commissioner and appointed by him are Assistant Commissioners for each district or group of districts, exercising appellate powers and directing and supervising the working of the Act within their jurisdiction. (4) The direct work of assessment and collection is done by officials called the Income-tax Officers, one or more being appointed for each district or group of districts, and assisted by a staff of Inspectors, accountants and clerks. They decide who are and who are not liable to be assessed to income-tax, determine the amount of tax payable by each, penalise evasion and fraud on the part of assessees and generally carry out all those provisions of the Act necessary for a just and successful working of it.

Such in brief is the constitution of the machinery under the new Act. According to the Act a separate Income-tax Department has come into existence with the Board of Inland Revenue at its head for the whole of India, and a Commissioner of Income-tax for each province. It will be noticed that the creation of a separate organisation consisting of officials wholly devoted to income-tax work is a great improvement in itself, capable of adding considerably to the efficiency of the administration. But everything that could have been done in connection with the improvement of the machinery has not been done. This is especially regrettable when we see that the financiers of British India have had the benefit of English experience and example before them. Considered in the light of the English system as well as on a *a priori* grounds the need for reform in this connection may be said to lie in three directions. First, the constitution of the machinery has to be so adjusted that neither in the exercise of its powers nor the discharge of its duties it creates any discontent and unpopularity. Secondly, it must be of such a nature as to achieve the most reliable results in the work of assessment. Thirdly, the functionaries of assessment should not act also as judges in their own cause either in the original stages of assessment or in appeals therefrom. The first object can be achieved by introducing a popular element in those parts of the machinery which are likely to touch the sentiment and confidence of the tax-payers. Tax-payers are likely to be affected by the ways in which their incomes are ascertained and assessed, the manner in which the returns made and accounts produced by them are dealt with and scrutinized, and the scope afforded for representing their grievances and correcting errors in assessment. To achieve the second object, *i.e.*, the obtaining of reliable results

in the work of assessment the best that can be done under existing circumstances is to associate in such work select residents of the locality in which the assessments are to be made, having regard in selecting them to their local experience, integrity, thorough knowledge of the various kinds of business in the locality, and special ability to understand the peculiar, unusual or special circumstances in particular cases. With regard to the third point, namely, that judicial functions ought to be exercised by an independent body, it has to be noted that this is more of theoretical than practical importance. For the end of justice it is only necessary that those who make the assessments should not themselves be allowed to dispose of complaints against their own action but that such complaints should be heard by a separate body. Appellate powers on questions of fact may be exercised by the Assistant Commissioner, as provided in the Act, questions of law being allowed to be referred to the High Court, or more desirably to the principal law court of the district. The only thing to be safeguarded against is that the power to assess and the power to scrutinise must remain separate. The fact that provision is made for a reference to the High Court in cases of disputed points or construction of law is not enough. Disputed points or construction of law are rare occurrences, and they are not the real difficulties in the administration. Facts leading to the ascertainment of the exact amounts of taxable income and equities arising therefrom are the only points that cause difficulty in most cases. And it is here that the judicial function of ascertaining the correctness of assessments requires to be exercised by an independent body, free from the influence of considerations governing assessments.

Now in the light of foregoing suggestions a reform of the income-tax machinery in British India may be achieved in the following manner:—The Board of Inland Revenue and the office of Commissioner of Income-tax in each province may continue as under the existing Act, and there is no need for any change either in their constitution or powers. The office of Assistant Commissioner may also remain as it is though its number will have to be increased so as to cope sufficiently with the increased administrative requirements that may be necessitated by the carrying out of the reforms suggested in this chapter. The real changes that have to be effected concern the lower ranks of the machinery. The work of assessment as we saw has to be guided by two considerations, namely, that it should be least offending to popular feeling, and at the same time efficient and thorough. If assessing officers are elected or otherwise chosen from the people, they seldom prove efficient, as they are often carried away by an excessive zeal for popularity and act in perpetual fear of popular criticism. In a country like ours where public spiritedness and a sense of civic duty have not fully developed, it may not be in the interests of good government, to entrust to a popular body the somewhat harsh work of making assessments to income-tax. On the other hand, if assessing officers are to be appointed by Government, they are likely unless a check is imposed on their actions by some form of popular machinery, to become too conscious of their powers, autocratic in behaviour and irresponsible in action, absolutely fearless of popular criticism. It is idle to say that they will be under the control of superior officers such as the Assistant Commissioner and Commissioner, who are empowered to interfere with their actions by exercise of appellate jurisdiction. The superior officers are more autocratic and irresponsible and, what is worse, less capable owing to the aloofness of their position of understanding the surrounding circumstances in cases of disputed assessments. Under these circumsances the best course will be to contrive such a machinery as will be both efficient and agreeable to the people. Efficiency can be achieved by the appointment of a set of officials called assessors for each assessment division of a district, their duty being to make assessments and take all those steps necessary and prescribed for that purpose. To ensure thoroughness and prevent escapes from assessment, another set of officials called supervisors may be appointed, one or more for each district, whose duties will be to enquire and report of, and recommend for assessment all those cases which have escaped assessments or have been inadequately assessed, and to supervise generally the work of the assessors. Independent of these assessors and supervisors there should be appointed for each assessor's division a Board of Reference consisting of five or more persons selected by the Commissioner or the Board of Inland Revenue from the residents of the locality, representative as far as possible of the different classes of assessees in the division. The duration of office of the members of the Board may extend to two or three years, members being eligible for re-nomination. The work of the Board should be honorary but members may

be given an honorarium for each sitting. A full time Secretary and a staff of clerks are to be attached to the Board for carrying on the routine. The business of the Board will be to hear objections against assessments made by the assessors and scrutinise the same. But they are not to have any power to cancel, modify, or alter assessments but only to submit their recommendations to the Assistant Commissioner of Income-tax who may pass orders thereon. The Assistant Commissioner may accept their recommendations or remand any case to the Board for reconsideration or call for a finding and pass final orders. There is to be no appeal from such final orders but a review may lie to the Commissioner of the province. Whenever any question of law shall arise, the same may on the application of the assessee be referred by the Assistant Commissioner to the opinion of the District or Subordinate Judge within whose jurisdiction the assessment has been made; and from the opinion of such judge an appeal may lie to the High Court.

It will be seen from the above that the Board of Reference which may be expected to possess a knowledge of the conditions of business, method of account-keeping and other circumstances of the assessees, is not given any absolute powers but made only to recommend its views to the Assistant Commissioner. The reason for this is that any greater powers given to it will be liable to abuse. When its function is merely recommendatory, its acquaintance with local conditions will be useful while its liability to corrupt influences cannot easily impair efficiency. The large powers given to the Assistant Commissioner are at once necessary and desirable. The work of the assessors supplemented by that of the supervisor will ensure thoroughness and accuracy in assessments. The fact that there is no independent judicial body to decide questions relating to assessments is not of any consequence. For the Board of Reference in whom the power to scrutinise vests is itself an agreeable judicial body whose opinion, though only recommendatory, has the greatest weight with the Assistant Commissioner. On the whole, therefore, it may be submitted that the improvements in machinery that are suggested here are conducive to good administration and should be adopted.

Mr. Ramaiya gave oral evidence as follows:—

The President. Q.—Mr. Ramaiya, you are a Vakil at Madura and Fellow of the Royal Economic Society?

A.—Yes, Sir.

Q.—You are also the author of "A National System of Taxation"?

A.—Yes, Sir.

Q.—In which you describe the study of the theory of taxation in relation to national welfare with some applications to British India, and the aim of the book is merely to suggest and indicate the lines on which the taxation policy of a modern national State requires to be guided and governed.

A.—Yes.

Q.—You chiefly deal with the questions connected with customs, income-tax and death duties?

A.—Yes, also unearned increment and taxation of commodities in general.

Q.—You do not object to land revenue at all?

A.—I do not. And I do not think the State should tax unearned profits of land where there is no nationalisation of land. I am for the nationalisation of land, and where it is not carried out the land revenue should be revised periodically once in 20 or 30 years so that the unearned increments or profits of land may be absorbed in it.

Q.—One thing that you suggest, I notice, is that insurance should be made a State monopoly.

A.—Yes.

Q.—What is the reason for that suggestion?

A.—The reason for that is the insurance companies are not giving any utility to the community. They are simply making profits by calculating averages of the duration of life and death of people, and the profits that they get are not earned by them. It is simply an advantage which they

have taken, for which no utility is given to the community. What I say is, if insurance is taken up by Government, then it will be a great inducment for people to insure their lives having regard to the credit which the Government would keep behind the insurance agency and also any profits that these companies are now enjoying, for which they are making no return of utility either to the people or Government, will be appropriated by the Government itself as representing the community.

Q.—What is your experience of efforts in that direction in other countries? Have you studied them?

A.—I have not, but I find that the Labour Government is aiming at it.

Dr. Hyder. Q.—You think that insurance is a sort of more or less routine business and requires no initiative and special skill. They are all the kind of thing which bureaucrats are quite capable of keeping up.

A.—It does not require any special skill and in those cases where publicity is positively an advantage Government may conveniently come in. Banking and insurance are two concerns where publicity has positive advantage and I suggest they should be taken up by Government.

Q.—The other reason is this. It is much better to work with a hundred rupees in one place rather than with the same sum in ten different places. If you have five companies and they have a reserve of two lakhs of rupees, then, instead of five companies, if there is only one company, it would be more economical.

A.—Not only economical but more efficient.

Q.—Not only that, but one company with two lakhs of rupees would be more effectively discharging its function, than if these two lakhs of rupees were put in five different companies. The principle that lies at the back of the work of the reserve of the Bank of England and other banks is the amalgamation of banks. The tendency is now that with smaller reserves you can get much more work. Similarly, with regard to insurance companies you would think that one concern even with smaller reserves can withstand much bigger risks?

A.—It may be so.

The President. Q.—How would you deal with the existing companies?

A.—They should be bought out by payment of capital. They may be taken over by the Government and the shareholders may be paid the amounts that they have subscribed.

Q.—At par or market value?

A.—Yes, at par.

Q.—What will you do with the shareholders who have paid premiums for their shares?

A.—They must take the risk because they always bargain for the amount of subscribed capital.

Sir Percy Thompson. Q.—They do not bargain for anything. If the business is unsuccessful, the shares are not worth anything, but if it is successful, they are worth a lot.

A.—I do recognize the difficulties. It is just like the difficulties in land nationalisation. They may be paid the present market value in such special cases.

Dr. Paranjpye. Q.—Do you know any country where banking has been nationalised, I mean, the monopoly of it?

A.—I do not know that.

Q.—Why, you have the post office savings bank.

A.—It is a portion of the banking business done in the country; to that extent the Government is doing banking business.

Q.—What then will you get from the monopoly of banking?

A.—People also get advantage, because Government gives greater security. The large profits these banks are now enjoying will go to the Government and thus will go to the betterment of the people.

Q. But there are many risks.

A.—With regard to banking, there are not many risks, as I find from the history of the banks. If they are properly managed, I think they will pay good income.

Sir Percy Thompson. Q.—Is this not your difficulty about Government having a hand in the affair? Supposing I want 10 lakhs of rupees and go to the bank; I am refused, but you go to the bank and they say that they will give you the money. Is it possible for the Government to do that? There would be questions in the House of Commons every day as to why A was not given a loan and B was given it?

A.—Government as the ultimate owner may take over the banks; and as Professor Pigou suggests, so far as the business of banking is concerned it may be entrusted to a committee of experts just like the Railway Committee.

Q.—Even so, how can Government avoid responsibility for the manner in which banking operations are conducted. Will there not be criticism if A was given the loan and B was not. Will it not be said that Government has helped A and has not helped B?

A.—The same complaints that exist with regard to the Imperial Bank now will also exist with regard to the Government banks. The same rule which is adopted for the Imperial Bank may be adopted for these banks.

Q.—No. There is no appraisement of the credit of A, B, C and D. If they comply with the conditions they get their loan.

A. The committee will be responsible.

Q.—Do you think Government can ever divest themselves of responsibility if they take over the banks?

A.—I think so.

Dr. Paranjpye. Q.—I can quite understand Government taking over the Imperial Bank. Would you thereby forbid any *sowcar* from lending money?

A.—No, we cannot do that, but we can effectively prevent other banking business being done by private individuals, in the same way as they are prevented from doing postal business.

Q.—Then there is no monopoly with regard to money-lending?

A.—But I think those small money-lenders will not compete with the Government. In fact, one object of my proposing a State bank in place of the Imperial Bank is this. Government has itself a very large amount of banking business to be done so far as its Currency Department is concerned. There may be economy in that. Its own business with regard to currency, exchange, etc., requires banking and Government may, with advantage, discharge the functions of the bank for its own purposes.

Sir Percy Thompson. Q.—But there may be enterprising bankers in the market who will compete with the Government and they may be able to build up their business and appraise people's credit and act as real bankers. Would they not oust Government? Government will get only the bad business.

A.—I don't think so. Government itself has got a lot of banking to do. If the Government runs its own Currency Department, there will be some economy effected in the administration also. Government, I understand does not get much profit from this.

Dr. Hyder. Q.—With regard to difficulties mentioned by Sir Percy Thompson, don't you think that they are more apparent than real? With regard to the first difficulty, A goes to the Government bank for a loan, and the manager won't give one, but B goes and gets the loan. The position is this. The manager takes some view into his head with regard to the trustworthiness of the man and says that man is not worth a loan and the other man is. In this respect the manager of the State bank is precisely in the same position as the private manager. With regard to the second point, that Government would get all bad business and the other people would get the prosperous side of it, the real position is this. With banking operations, there is not much scope for any special skill and it is all a beaten track. So there would not be any danger of serious inefficiency so far as the State is concerned. So this difficulty also is not very

much to be taken into consideration. By private people coming in the line, the interests of the State will not suffer.

A.—I should think so.

Sir Percy Thompson. Q.—In the case of a private bank, the manager has no responsibility except to himself, in the case of a State-run bank, he has a responsibility to the electorate and if a bank manager acting under Government makes a mistake with regard to the affairs of the bank, he can be called to account by the representatives of the electorate. I remember a case in England where the Board of Inland Revenue wanted half a dozen accountants: they advertised, asking for applications from chartered accountants or persons belonging to the Incorporated Society of Chartered Accountants. There was a tremendous howl, because these two classes were specified. There is no distinction between the two cases.

A.—According to my proposal, Government do not directly act. They only act through a committee of experts and that committee is the sole authority so far as banking is concerned.

The President. Q.—You have such a committee in the case of the State Aid to Industries Act in Madras.

A.—I am not aware of it.

Q.—The State Aid to Industries Act is only two years old and the first loan recently issued under it was for Rs. 10,000.

You propose a new tax on brothels and gambling houses: do you seriously advocate that?

A.—I do; they are only part of a larger policy of aiming at "good government." I advocate a tax on all services which are harmful to society.

Sir Percy Thompson. Q.—You take exception to the provision in section 9 of the Income-tax Act which limits the annual value of house property in the occupation of the owner to 10 per cent of the total income of such owner. That provision was inserted to afford a certain measure of relief to decayed families living in houses too big for their means: but apart from that, you apply this to the case of the Nattukottai Chetti community. If there is not a large assessable income, how can these Nattukottai Chetties keep up these enormously big houses?

A.—These Chetties have large businesses in foreign parts; they don't bring these incomes into the country; they only get about Rs. 1,000 or Rs. 2,000 required for the maintenance of their household.

Q.—If they live in large palatial houses, they must bring a large income in order to maintain them.

A.—Not necessary, they accumulate their incomes elsewhere. House-room is only an indication of their social position and not of their scale of expenditure.

Q.—But at any rate they must bring a substantial income to India in order to keep up large establishments.

A.—They are very frugal and economical. They do not need much money for expenditure, and we cannot judge of them according to European standards. In this connection, I wish to point out that the incomes of residential houses of zamindars and other landowners are exempt from income-tax. If a zamindar occupies a high status in life, he would have a palatial building and this building would not be liable to income-tax because he does not have any income other than agricultural income.

Dr. Paranjpye. Q.—If a man has all his income from agriculture and a big house, wouldn't he be liable to income-tax on the house property itself?

The President.—Actually this proposal is only part of a larger proposal that you should have a tax on income derived from the possession and use of motor cars, furniture, jewels, etc., that do not yield a direct income.

A.—These may under certain circumstances yield a measurable money income.

Q.—Would you say that one-fifth of the wealth of the country is in the shape of jewels and do you want to tax the income of satisfaction derived from the possession of those jewels?

A.—Yes, I do not find any difference between house property in the enjoyment of the owner and jewels in the enjoyment of the owner.

Sir Percy Thompson. Q.—Surely the main reason why you charge the owner of a house is to put him in the same position as the man who rents a house.

A.—In the same way, furniture, motor cars, etc., may be hired. There may be some practical difficulty, but that is left to the taxing authorities. So far as the principle is concerned, I find no difference between the hiring of motor cars and jewels and the hiring of a house. What I submit is that this undesirable investment in jewels to a large extent may be avoided if we fix a limit and say that more than Rs. 5,000 worth of jewels would be taxed.

The President. Q.—Practically, doesn't your proposal come to this: that you impose a property tax on the American model?

A.—I do not exactly advocate a property tax.

Q.—Doesn't an income-tax on an imagined income from property come to the same thing as a direct property tax?

A.—It is not merely an imagined income. In some cases it is capable of a money measure. If it is not capable of a money measure and if you have to estimate how much a man is expected to derive from the using of a particular property, it would be a difficult thing, but here it may be measured by the amount of money paid for renting it or hiring it.

Dr. Paranjpye. Q.—Supposing a man purchases a valuable pendant costing £10,000, he derives satisfaction from the pendant.

A.—The income is not capable of a money measure.

Sir Percy Thompson. Q.—Why?

A.—It is purely psychic; we cannot value the income. The amount that you pay represents the value of the property.

Q.—Suppose you don't buy books from shops, but hire them from the library?

A.—The amount you pay is insignificant.

Dr. Hyder.—The answer to this is that books and clothes are not generally hired.

Sir Percy Thompson. Q.—Jewels and motor cars are not usually hired either.

A.—They are often hired, and I have known of instances where even costly clothing is hired. These latter are, however, so insignificant that it is not worth troubling about.

Q.—Your next point is that you take exception to the provision that profits earned abroad should only be charged to income-tax if, and so far as, they are remitted to India.

A.—Yes.

Q.—That is a provision which, I think, is common to most Income-tax Acts. Have you realized the significance of this? Let us suppose that you charge all income earned abroad by residents in India, whether or not it is remitted to India. If the Indian legislature did that, I take it that it would be equally open to the foreign legislatures to pass a similar provision, i.e., the French legislature might provide that all profits earned by those French residents in India should be charged to French income-tax whether or not they are remitted to France.

A.—In that case I would even suggest half and half.

Q.—Here am I in India making profits in Timbuctoo, but I don't remit them to India. At the present moment I am exempt from income-tax in respect of those profits. Now, if you make a provision that I am chargeable to income-tax on those profits, whether I remit them or not, surely it is open to France to charge income-tax on French subjects on the profits they make in Timbuctoo.

A.—Yes, it is barely possible.

Q.—A little later on, in paragraph (e) of your written statement, you suggest that foreign concerns which do business in India should be charged at a higher rate.

A.—Yes, at a higher rate than that applicable to Indian concerns.

Q.—When you have done that and when foreign countries have done the same, wouldn't you have the most perfect system of double income-tax the wit of man can devise?

A.—That is why I suggested division by half and half.

Q.—You would charge Nattukottai Chetties only half rates on their incomes in this country?

A.—No rate is charged at all on their foreign incomes; they entirely escape taxation.

Q.—What about the incomes remitted to India?

A.—They are taxed.

Q.—Are you going to charge only half rates for them?

A.—Half rates on the entire income that accrues to them; on that part which is brought to India full rates will be charged. This ought to be so especially where in the foreign countries there is no income-tax.

Q.—I think there are very few foreign countries where there is no income tax.

A.—In Ceylon, for instance, there has been no income-tax.

Q.—If you are going to charge all incomes earned abroad belonging to residents in India and also to charge all profits earned in India when they belong to residents living out of India, you would have the most perfect system of double income-tax imaginable.

A.—I don't understand that.

Q.—I live in India: I earn my profits in France and you charge me Indian income-tax on these profits. Similarly, France charges income-tax on those profits, because they are earned in France. I pay twice.

A.—That is why I suggested, as the Report of the Financial Committee of the League of Nations shows, that the place of residence and the place where the income accrues should charge half and half.

Q.—Instead of doing what you suggest in paragraph (e), viz., charge a higher rate on foreign concerns making profits in this country, you would only charge half rate?

A.—Yes. After considering over this matter with regard to double taxation, my view is that the existing section 49 may be extended to all foreign countries.

Q.—Are you aware of the fact that under section 49 practically the whole cost of the relief from double income-tax is borne by the British Exchequer?

A.—That is because our income-tax rate is very low.

Q.—Let us suppose the rate of income-tax in India is 2 annas in the rupee and the rate in Australia is, say, 3 annas in the rupee. What relief is each going to give?

A.—India will part with ½ anna and Australia with 1½ annas.

Q.—Why is Australia to give up 1½ annas and India only ½ anna?

A.—Because the Indian rate is a smaller rate when compared with the rate of Australia.

Q.—That is no reason why Australia should give up 1½ annas out of three annas in the rupee, when India only gives ½ anna out of two annas.

A.—They have to come to some understanding with regard to this double taxation. Half and half does not mean half of Indian taxation and half of the other countries taxation.

Q.—It was fully realized, when section 49 was inserted, that the British Exchequer was to bear the cost of it.

A.—So far as India is concerned, India is not paying double taxation except with regard to limited companies for the reason that the Indian income-tax rate is very low and not for any other reason. Britain does not make any sacrifice.

Q.—India does not make any sacrifice. India charges just the same rate as on other concerns and the whole sacrifice is made by the British Exchequer in order to avoid double taxation.

A.—That is not so.

Q.—What in effect you mean is that the country which has the largest income-tax should make the biggest sacrifice. Suppose that Australia has an income-tax of four shillings in the pound and India one shilling in the pound. Certain incomes will have to be taxed both in India to one shilling and in Australia to four. How are you going to avoid double taxation?

A.—India will not make any sacrifice.

Q.—Do you think Australia is going to make the whole sacrifice?

A.—So far as India is concerned, Indians have no companies in Australia or any business concerns.

Q.—I dare say such a case won't arise very often.

A.—We have to take things only as they stand at present. Indians have got companies in the Malay States, Ceylon, South Africa, etc.

The President. Q.—Substitute 'Malay States' for Australia. Do you think the Malay States would agree to give the whole relief?

A.—That assumes they have a higher rate. If the rate is not the same as in India, the country which imposes a higher rate will have to make the sacrifice.

Sir Percy Thompson. Q.—You will never get an agreement.

A.—If there is no agreement, then there will necessarily be double taxation, and nobody need complain of double taxation.

Q.—Isn't the remedy proposed by Prof. Seligman and others that on economic theory the country in which the profits of manufacture and trade are earned should give up their tax and leave it to be charged by the country of residence?

A.—They have also proposed the half and half method.

Q.—Four methods were suggested and they said in another place that the country of origin was to give up its tax.

A.—In another place they say that the country of origin would lose.

Q. They perfectly realized that the country of origin would not give up its tax and therefore in a subsequent chapter they came to a compromise.

A.—They say that the country to which a particular company or person owes economic allegience should tax.

Q.—Would you tax foreign companies which are making profits in India?

A.—We try to tax them only with regard to incomes which accrue to them in India. The principle on which I suggested that was, that while, those who receive dividends from companies registered in India are amenable to the Indian income-tax, those who receive dividends from the foreign countries are not so amenable, because they reside in other countries. In India companies generally are charged at a low rate. So I suggest a higher rate on the incomes of foreign companies.

Q.—Do you say that people resident in India who invest in foreign companies will not pay Indian income-tax?

A.—I don't say that. The shareholders of those foreign companies which have their branches in this country and earn incomes here do not pay income-tax here.

Q.—They pay through the companies.

A.—The rate is not as high as the ordinary income-tax. I refer to the super-tax which is only one anna in the rupee whereas the super-tax in the case of others is 4 and 6 annas.

The President. Q.—Then you assume that all the shareholders would pay super-tax.

A.—Not all: at least some of them would. Even that is denied to us so far as the shareholders of foreign companies are concerned, especially when those foreign companies earn high profits.

Sir Percy Thompson. Q.—They pay the higher rate of income-tax.

A.—At least there should be some difference between the Indian companies and the foreign companies so that there may be some inducement for persons of foreign enterprise to invest their capital in India. Further, I understand that the various municipalities in which these companies are situated do not charge these foreign companies; on the other hand, they charge income-tax on the Indian companies.

Q.—I think you are mistaken; they do not charge income-tax.

A.—They only charge profession tax and not companies tax.

Q.—In the case of municipalities?

A.—My information is from third persons and I should like to verify it. So far as my information goes, Indian companies are charged company tax and foreign companies only profession tax. This is so far as the municipalities are concerned.

Q.—This is what the Commissioner of the Madras Corporation says: "In the case of foreign companies which have branch offices or agents or firms to represent them they are considered as companies incorporated in this city and are taxed on their entire paid-up capital, irrespective of the fact that only a small portion of that capital may be put to use in the local branch itself. It would be fairer to assess such foreign companies on a proportion of their main capital (say a quarter), or on the total turnover."

A.—That may be with regard to the Madras City Municipality. But it does not seem to be so in the case of other municipalities. Every municipality has got its own methods governed by rules and notifications. The City Municipality Act is different from the District Municipalities Act.

Q.—Do you know any country in the world where they allow interest on private borrowings to be deducted? Suppose you chose to incur debts for marrying your daughter and you pay interest on it to your money-lender?

A.—A person has a right to spend his own money as he likes. When he becomes a pauper, is he going to be taxed? Income-tax is only on his net income.

Q.—If a man earns Rs. 5,000 a year and goes on borrowing?

A.—Income-tax is not a school of thrift. It is only a tax on the net income. If I have to pay interest out of the income I earn, it must be exempted from the tax.

Q.—I do not think you will find any other country which allows such deductions.

A.—It appears to me that equity requires this irrespective of the practice in various countries. Every one is at liberty to spend his own money in any way he likes.

Q.—The whole question is whether you are going to treat this interest which he pays as a deduction from the income or whether you are going to treat it as spending out of the income after he gets it.

A.—If last year he incurred the debt and if he pays interest this year, the amount of interest that he pays this year must be deducted from the income for this year.

Q.—At any rate, it is not a view adopted by any other legislature.

A.—But from the point of view of equity it seems to be correct.

Q.—But the principle is to allow for expenses which are necessarily incurred in earning the income.

A.—It is because in other countries they do not spend much on marriages and other festivities and capital expenditure is incurred only in business. In this country it is very common to spend capital in other than purely business matters.

The President. Q.—May we go to your suggestion that local bodies should be taxed if their income is beyond a certain amount?

A.—I have carefully considered that matter over again and I think that so far as the economic income of the local bodies is concerned, that is, the business income, it must be taxed and not the other incomes.

Q.—That is, income from non-tax sources?

A.—Yes.

Dr. Paranjpye. Q.—For instance, profits from tramways and so on?

A.—Yes.

The President. Q.—If they run a market and make profit?

A.—Certainly it must be taxed. For instance, the Madura Municipality sells its nightsoil and other rubbish as manure for about Rs. 60,000 a year.

Dr. Paranjpye. Q.—On the other hand, it makes provision for sweepers and so on.

A.—But it collects scavenging and other taxes.

Q.—But does that revenue pay for all expenses irrespective of the amount that they get from selling the manure? They may get a certain amount from the scavenging fees. But how much has the municipality to spend on its collection?

A.—They may spend any amount; it does not matter. The business of scavenging should not be mixed with the profits they earn from the sale of manure.

The President. Q.—Suppose they have a monopoly of markets in the town and sell the stalls by auction and so indirectly take a tax on the goods sold. You say that you should tax that income?

A.—Yes, because it is commercial income.

Q.—Suppose they take so much per cent of the value of the articles brought into the market?

A.—That also must be taxed.

Q.—Suppose they take it at the gate in the shape of octroi?

A.—That is a tax. If they have their own markets and if from those markets they earn something, then that earning must contribute to the national exchequer.

Q.—So that if you take it at the gate of the town you would not tax but if at the gate of the market you will tax?

A.—Because the market is owned by the municipality, and the income can be traced to the ownership of the market.

Q.—You are strongly in favour of taxing agricultural incomes?

A.—Yes.

Q.—On the ground that land revenue is amortized?

A.—Yes. Not only on that ground but on grounds of equity. There are rent-free lands and revenue-free lands; there are lands which pay a lower rate of revenue and so on. Further, the exemption of agricultural income acts as a protection to agricultural interests and discourages industrial enterprise in a way.

Q.—You say: "It is obviously unjust that one who invests in non-agricultural enterprises should pay income-tax on his income, while another who invests in land and derives an agricultural income should enjoy immunity from the tax."

A.—Yes. Let us take the case of an usufructuary mortgage in respect of land. The mortgagor escapes the tax, because his income is considered as agricultural though his concern is purely money profit.

Sir Percy Thompson. Q.—With regard to customs, no doubt when you are imposing duties in order to assist your own industries, it is necessary to have very large number of classes, because you impose just as much tax on the different articles as would give your own industries a chance to compete. That is the reason why you have a large number of categories. But is it necessary to have such a large number of categories assuming that you are imposing your customs duties solely for revenue purposes?

A.—I have indicated this principle in my book. Customs duties are not designed purely for revenue purposes (for after all revenue is only a means to an end) but also for educating the people into good life or good living.

Q.—Do you mean that they are, or that they ought to be? In fact, are you inducing the people to good living by putting on a rate of 30 per cent?

A.—Yes, by putting 30 per cent on luxuries which do not add to the efficiency of the people. All necessaries must be free. They add to the efficiency of the people. All luxuries may be divided into two classes—those which are for comfort and those which are positively harmful. These harmful luxuries should be taxed at a very high rate and the luxuries which add to comfort may be taxed at a moderate rate, and it is with regard to the latter kind of luxuries which add to comfort that considerations of protection to home industries and other such things come in. So far as necessaries are concerned, there should not be any duties. Only with regard to those luxuries which have got a facility in this country for development, the question of protective tariff comes in. Again in the case of those luxuries which are not comfort-giving, I propose an import duty *plus* an excise duty in cases where these luxuries compete with necessaries. For example, I am in favour of an excise duty on fine cotton manufactures in this country. But on coarser cloth I consider the excise duty should be abolished. There should be no excise duty at all on it. Again with regard to tobacco for example, I propose both an import duty and an excise duty, because it competes with necessaries.

Q.—What I suggest is this: the reason why all these countries have all these numerous items which you mention is not the same as the reason you give.

A.—It may be. But what I say is that these numerous ratings will be useful from my standpoint also.

Q.—You say: "Further, a system of *ad valorem* duties, though it has the advantage of automatically adjusting itself to the prices then and there current, tends to have an unhealthy influence on mercantile contracts, leading often to malignant forms of speculation in business." I think it is rather difficult to have meticulous assessments of the extent to which a particular imported article conduces to comfort. You will have an enormous number of ratings.

A.—So many ratings may not be necessary. A fair grading may be obtained. We can broadly classify the articles.

Q.—You say: "Compared with this, the existing schedule of tariff rates in India shows that the duty-paying articles of import are grouped under not more than 140 heads, giving rise to much overlapping for want of sufficient elaboration of the tariff. There is not that minute division into classes, grades and qualities, which characterise the ratings in other countries. The result of this is that in the case of those articles on which specific duties are imposed, the cheaper varieties come to be taxed at comparatively higher rates in proportion to their value than the more costly varieties." I take it that what you do now is to have more ratings.

A.—The ratings may be more than what they are at present.

Q.—The reason why they have numerous tariff rates in other countries is quite different.

A.—The reason may be otherwise; but we may have the ratings of the particular kind I suggest.

Q.—What I suggest is that if your tariff is for revenue purposes purely you do not need all these minute gradings.

A.—We do need them if we want to tax the articles in the manner in which I have indicated. If we impose such a tax, people will be educated in better ways.

Q.—One article may be a little more of a luxury than another; and you would have two different charges for things which have only a slight difference.

A.—It would be left to the taxing authorities to distinguish and differentiate between what is considered to be a luxury and what a necessary. For example, take soaps: we have ordinary soaps and soaps of a costlier kind. We can have a broad division.

Q.—How do you distinguish between a soap which you let in free and one which is a luxury?

A.—We can distinguish the ordinary cheap stuff from the costlier quality.

Q.—But it has got to be worked by some authority according to certain rules. What would be your rule with regard to soaps?

A.—I have only suggested the principles.

Dr. Hyder. Q.—Perhaps the soap that contains no scent and the soap which contains a large quantity of scent should be treated differently?

A.—I say that, because there are facilities for manufacturing soap in India.

Q.—Your point is that those who can afford to pay more should pay more?

A.—Yes. Those articles required by the poor people should be allowed free import.

Sir Percy Thompson. Q.—You can get that by charging *ad valorem* duties.

A.—Then there is this difficulty with regard to the administration: people will escape by putting on low values.

The President. Q.—Is not power vested in Government to buy goods which are undervalued? That would be a corrective to undervaluation. If anyone under-declares, the Collector of Customs may buy the goods at that value.

A.—The tariff valuation has got the advantages of both.

Q.—One tariff valuation for a hundred varieties of scented soaps?

A.—That is why I say that we can broadly divide them. We can broadly divide or classify the soaps and other commodities and those which are not of the cheaper kind may be taxed higher.

Q.—Would there be any agreement as to the degree of harmfulness or the degree of luxury. And who is going to fix the degree of harmfulness or luxury?

A.—That would be left to be determined by the standard of positive morality obtaining in the community.

Q.—But somebody has to fix the rates.

A.—Yes, the Customs Department will do that.

Q.—You want to impose duties on tobacco, betel-nuts, explosives, fireworks, silk and silk goods, jewellery, precious stones, smoking requisites, and the requisites of such merely fashionable sports and games as tennis, billiards, and cards?

A.—Yes.

Sir Percy Thompson. Q.—Do you think it will be possible to collect all these duties?

A.—It may be that some of these duties may be difficult of collection by the Central Government. So far as the excise duties are concerned, they may be left to the local bodies.

The President. Q.—If you take any two typical taluk boards, do you think that they will have the same rate and attach the same degree of harmfulness with regard to tennis, billiards and cards?

A.—Each local body may determine the rate according to its own standard. But these things have to be taxed as they are not necessary for life or efficiency. Money spent on them had better be utilized on necessaries which add to the efficiency of the people.

Sir Percy Thompson. Q.—What about tennis? Does it add to efficiency or not?

A.—It does, but at heavy cost. If you have any belief in the Indian methods, the Indians have been living very efficiently in the past without tennis. They have got their own national games which are very cheap. The money spent on tennis had better be utilized in better ways.

The President. Q.—You say that the import duty can be made to fall on foreign shoulders, at any rate to a large extent.

A.—Yes. In the case of India, so far as the cotton piece-goods are concerned, the import duties are largely borne by the foreigner.

Dr. Hyder. Q.—Suppose India puts on a duty of 20 per cent on the goods imported from Lancashire. Then you are of opinion that this 20 per cent will be borne not by the consumer in India but by the foreign manufacturer?

A.—Not entirely, but to a large extent.

Q.—Let us suppose that enough time has passed for initial adjustments. Then in the long run too, do you think that this extra 20 per cent will be borne by the manufacturer? Or will it be borne by the consumer?

A.—To a large extent by the foreign manufacturer, because he has invested in heavy plant.

Q.—The foreign manufacturer will be seriously embarrassed if there are no other alternative markets open to him. You can maintain your position only if you say that there are no foreign countries open to the English manufacturer. If the Indian market is closed to him by means of these 20 per cent and he can go nowhere else and there is no other use for his capital sunk in the mills, then in that view you can embarrass him; but not otherwise.

A.—Yes.

Q.—But such cases are very rare.

A.—Yes, such cases are rare; but there are some such cases.

Dr. Paranjpye. Q.—The duty may not be borne by the foreign manufacturer; he might scrop the machinery or might use it for some other purpose.

A.—No; he cannot do that in the case of plant which he cannot transfer to the production of other articles.

Dr. Hyder. Q.—Are you aware of the technical side of the business? The manufacturing countries in Europe during the late War did not find it very difficult to divert their entire industries to the business of making munitions. So that this diversion of capital or the inability of the capital to move does not really hold good.

A.—But I find the other thing from some of the English authorities. Dr. Marshall points to such instances in his book, "Money, Credit and Commerce."

Q.—To the extent that the manufacturer cannot turn his machinery to other use and to the extent that there are no other markets open to him, what you say may hold good. But in the absence of these two conditions, he may say " I am going to sell my stuff elsewhere".

A.—Yes, he can do so.

The President. Q.—You encourage the import of necessities and you would put an export duty on all such articles. You say further "If export duties should be levied on agricultural products it will be economically sound to levy the same on all kinds of such products instead of doing so on some of them at random".

A.—Yes; the reason for that is this: if an export duty is imposed upon some of the agricultural products alone, those products will be sold cheaper in this country and the cultivators will be induced to substitute in their place other agricultural products. If export duty is imposed on rice it will sell cheaper in this country; and because rice sells cheaper, the cultivators will substitute cotton or tea or something else in the place of rice. But if export duty is imposed on all agricultural products, this kind of diversion or substitution will not take place.

Sir Percy Thompson. Q.—Is not there the other alternative? If you restrict the export of food-stuffs, you will have less production of food-stuffs; if you do that, the result will be that in times of bad harvest, you

will have famine. But by encouraging the export of food-stuffs, you will have your food-stuffs in abundance and in famine years you can have the surplus for yourselves and thus reduce the effect of famine to insignificant proportions.

A.—I do not agree there for this reason. The export of rice and other necessaries results in this: the wealthy people in foreign countries where rice and other stuffs are not produced are able to compete more effectively as compared with the poorer people within the country. It does not happen that the whole of the country's requirements are satisfied and only the surplus is exported. What happens is that the wealthier people in the foreign countries compete with the poorer people at home; so that the wealthy people in India, that is, those who are able to command a surplus, export food-stuffs for being sold to the wealthy people in other countries. The result is that the poorer people in the country suffer, because they cannot compete with the wealthy people in other countries.

Q.—Why is it, then, the wealthy people export these things?

A.—That is because the people who produce find it to their advantage to sell to other countries because higher prices are offered by the wealthy people of other countries compared to the offer of the poor people in this country.

Q.—By your own admission, then, you are going to force the cultivators not to get larger prices for their products. Then do you consider that the 280 million people out of 318 millions, who are engaged in agricultural pursuits in this country, are so wealthy on the average as to be able to afford to cut down their profits?

A.—My suggestion will not cut down their profits. What I say is that the export duty, which now falls only upon rice unless it is extended to all agricultural products, will have this tendency that cultivators will be induced to substitute other produce in the place of rice.

Q.—They will not be exporting if you put on an export duty, and therefore the volume of food-stuffs available for consumption in this country will be much larger and therefore the prices will fall, and the cultivators will not get the profits which they are making now.

A.—Yes. But it is not all cultivators that will suffer, only those who command a surplus lose to some extent on the surplus.

Q.—The culivators will not be making large profits as in the past and you still think that 280 million cultivators are so very prosperous that you can cut down their profits?

A.—This assumes that all these are persons who own the lands, but very nearly 150 millions people are mere cultivators who earn only daily wages and the ownership of the lands are confined to the minority.

Q.—I do not differentiate between the cultivators and owners of land.

A.—My point is that only owners of lands will be at a disadvantage, as they alone can command a surplus, and they are few in number.

The President. Q.—You accept there are 150 million landless labourers in India?

A.—Yes, about that.

Sir Percy Thompson. Q.—Are they so prosperous that you can cut down their profits? By your own admission they are going to get a smaller price for their food-stuffs.

A.—But they have little or nothing to sell. They are wage earners. It is the owners of land that profit out of these lands.

Dr. Hyder. Q.—Supposing the whole of India contains nothing but landless labourers, even then you want to put a tax on export of agricultural goods? Don't you think that it would hit the agricultural labourers hard?

A.—No. It won't affect the agricultural labourers.

Q.—I would put it this way. Those who pay wages to these 150 million landless labourers are the owners of lands. They will say that they cannot pay the labourers as before, because the profits they used to get have been diminished, on account of the export duty.

A.—Why, the landless labourers do not get anything in the shape of money for cultivation, but they only get grain for their labour.

Q.—They will say, "We do not make higher profits for our produce, and therefore we are not going to give the same quantity of grain for your labour". They will say agriculture is not so prosperous and therefore they are going to cut down the wages given to the labourers. What will stand in their way?

A.—Even now they can do that.

Q.—I mean to say by putting on this export duty you would be hitting those people who are already badly off.

A.—The export duties are already there. What I suggest is that the export duty should not be confined to rice alone but must be extended to other agricultural products in order to take away the tendency to substitute other agricultural produce in the place of rice.

Q.—The effect would be that the agricultural industry would experience depression.

A.—I do not think so.

Q.—At present people grow for their own needs *plus* the needs of the foreigners?

A.—No; a large number of the Indian population are in greater difficulty in purchasing food-stuffs on account of powerful foreign competition.

Q.—Your point is this. He cannot make any other use of his own land, and therefore he must produce only agricultural produce.

A.—Yes. I would levy duty on all agricultural products.

Sir Percy Thompson. Q.—Are raw cotton and jute included among food-stuffs?

A.—They are not. Every produce of the land which is exported must have an export duty. If you have export duty only on some of the products, I say that it will lead to bad results.

Dr. Hyder. Q.—You know the reasons why it is levied upon some and not on all? Take cotton and jute. Export duty is levied on jute because it is the monopoly of India, but as regards cotton the position is not the same, nor the position is the same with regard to wheat.

A.—No.

Dr. Paranjpye. Q.—Madras grows a good deal of paddy, have you seen any case where people have given up cultivation on account of these duties?

A.—I have known thousands of cases. In Madura district I know it has been done. Instead of cultivating rice they have begun to grow cotton.

Q.—Why is it so?

A.—Because cotton is selling high.

Q.—Therefore they are in the way of making money. So they will cultivate only such things which will bring them more profits?

A.—That is what I want to prevent. There should not be a diversion from the production of necessaries to the production of other products for the sake of money.

Sir Percy Thompson. Q.—Supposing your policy is successful and you prevent the export of food-stuffs, how are you going to pay your interest on the foreign debt?

A.—It will be paid by the export and import duties.

Q.—But your policy is to prevent the export of food-stuffs.

A.—Not to prevent, but to discourage it.

Q.—That is, to reduce the export. Is it sufficient to balance your budget and pay your foreign debt?

A.—You will correspondingly decrease the imports of non-necessaries and there will be such a readjustment of trade and prices that there will be no difficulty in paying the interest on the foreign debt.

Q.—Then you are going to reduce your revenue, because you are not going to get anything by way of customs duties.

A.—I think it is not for the purpose of revenue alone that these customs duties ought to be levied. It must be for the betterment of the people also. I have suggested, instead, income-tax and death duties. I only want to discourage the export of food-stuffs.

Q.—You use the word 'discourage' and I use the word 'reduce'.

A.—Yes.

Dr. Hyder. Q.—Will it not interfere with that utilization of the national resources which the industrialists and other people who own these resources consider best?

A.—Their resources ought to be directed in the direction which is most productive and beneficial to the country as a whole.

Q.—You would agree to the general proposition—the national resources should be put to the most productive use.

A.—Not merely productive, but conducive to the good of the country.

Q.—I was asking you to say whether on the whole it is best that the national resources should be put to productive use?

A.—Yes, provided those are necessary for the efficiency of the country.

Q.—Do you think that this country requires food-stuffs alone? Man does not live by bread alone, but he requires a sheet of cloth also to wear. If your policy is adopted there would be rice cheap, and the rice plate will be quite full, but the man would be bare-bodied because he wants a *dhoti*. Then you will say that it is manufactured in India. If *dhoties* are manufactured in India at a smaller cost then your policy might be successful, but the proposition is this. By following your policy no doubt you would make grain cheaper, but you would make other things much dearer for the landless labourer.

A.—For preventing that, I advocate free import of cotton goods such as are necessary. I only advocate import duty upon the costly clothes.

Q.—What net advantage have we obtained? The man gets rice, a larger measure of rice, but he will have to pay much more rice in exchange for *dhoties*.

A.—It is assumed that only 50 millions are owners of land and have rice to sell and not the others. Though more rice will have to be given in exchange for *dhoties*, yet *dhoties* also will be cheap, on account of free import.

Q.—I am speaking for the general mass of the people who do not own any property but live upon their labour; they might have enough of rice, but they have to expend the rice on the different things which they require.

A.—That assumes that they have sufficient rice, but in fact they do not command enough food for themselves.

Q.—They get their rice through labour?

A.—Yes.

Q.—One effect would be that the man who gives the price for this labour says, "I am not going to give you a great deal of rice, but I am going to keep it for myself".

A.—It won't happen so far as the wage in rice is concerned. I cannot understand how it could be reduced.

Q.—At present the total amount which is produced is required for the needs of India and for the needs of foreign countries?

A.—No, for the needs of India it is not enough. India is not fully equipped with food-supply for her entire population.

Sir Percy Thompson. Q.—The production of your country or any other country must be sufficient to feed its own population and pay its foreign debts. You say the whole production of food-stuffs is not sufficient.

A.—Yes. But I say that the quantity retained is not sufficient.

Q.—You want to retain more. If you retain more, you will be less able to repay your foreign debt. If it is the fact that your population go short of food, it is because the total production of your country is not sufficient to feed your country and pay the foreign debt. It cannot be done in the way suggested by you.

A.—Foreign debt will be paid by the export and import duties and by a readjustment of the balance of trade and prices.

The President. Q.—You would exempt from taxation food grains and salt, firewood, kerosene and matches, coal and coke, the coarser kinds of piece-goods and yarns, wood, timber and other building materials; paper and stationery but not the fashionable and costly sorts, and railway and electric material? You would, there again, sacrifice a very large amount of revenue?

A.—What is sacrificed will be recouped by way of excise duties upon articles of luxury and by means of the other taxes that I have suggested.

Q.—You would put prohibitive duties upon intoxicating drinks, opium, tobacco and *ganja* and other drugs?

A.—Yes. I do not advocate prohibition, but high import duties on liquors, tobacco, etc.

Q.—Do tea and coffee come in among the comforts of the people?

A.—I think the poor in this country do not take tea and coffee.

Q.—Don't the poor drink coffee?

A.—No.

Dr. Paranjpye. Q.—I find that they do drink coffee and tea in our villages in the Bombay Presidency.

A.—Coffee is being drunk by the middle classes in Southern India, but not by the poor. Medical opinion also is to the effect that neither coffee nor tea adds to efficiency.

Q.—Don't the agricultural labourers drink tea and coffee?

A.—Not in the Madras Presidency.

The President. Q.—In Malabar every second street has a tea shop.

A.—Even there only middle classes, I think, drink tea or coffee. In the Tamil districts, I do not find a single labourer drinking tea or coffee.

Q.—You would also have a new tax on refined sugar, jute and cardamom. How would you levy an excise duty on refined sugar?

A.—Sugar is an article of luxury in this country.

Q.—As a matter of practical politics, how would you collect an excise duty on refined sugar?

A.—Only companies manufacture refined sugar and the tax may be levied at the stage of refining.

Dr. Paranjpye. Q.—You would not have an excise duty on raw sugar (*gúr*)?

A.—No.

Q.—You would have it only on refined white sugar made in factories.

A.—Yes.

Dr. Hyder. Q.—If you exempt jaggery or date-palm sugar and if you put an excise duty on refined sugar, surely you will be subjecting one class of sugar to the duty, leaving free another class.

A.—That is exactly what I want.

The President. Q.—You propose death duties?

A.—Yes, I do.

Q.—In the case of joint Hindu families, you propose to levy it on the death of the managing member?

A.—Yes.

Dr. Paranjpye. Q.—If you levy a duty on the death of the managing member, why do you want to charge different rates to the various people in the various orders of succession?

A.—I propose to levy the duty on the death of the managing member only so far as joint family properties are concerned.

Q.—What would you do in other cases?

A.—There is no difficulty in other cases.

Q.—I would like you to explain a little in detail the paragraph on the subject on page 182 of your book "A National System of Taxation."

A.—That paragraph does not relate to joint family properties, but only to the other properties of Hindus, Muhammadans, Christians, etc. I would

take the distance of relationship according to the order of succession and levy different rates according to that order. In the case of joint family the method of devolution is by survivorship and not by succession.

Q.—In England death duties consist of two parts; one an estate duty and the other a succession or legacy duty. The estate duty is levied on the corpus of the whole estate, and the succession duty on the share obtained by different people. So far as the latter duty is concerned, you would charge it on two principles, firstly on the amount obtained by each man and secondly on the degree of relationship to the man who dies.

A.—Yes.

Q.—Let us come to the joint Hindu family. What do you want to do in that case?

A.—There is no succession or inheritance. Property passes by survivorship to the other members of the family. Generally, the eldest member of the family is considered to be the managing member.

Q.—In that case property will be subject to a death duty much more often.

A.—You would be imposing it on the death of each managing member and on account of the frequency of such deaths and also on account of the fact that the whole family property has to be taxed. I suggest that, so far as joint families are concerned, there must be a lighter tax than in cases of succession.

Q.—In a joint family, suppose there are people of different grades and different degrees of lineage, viz., a father, several sons and several grandsons. If the father dies, estate duty will be charged on the whole estate and on each son on the amount to which he succeeds by survivorship.

A.—There is no succession at all here.

Q.—Leave aside the Hindu Law for a moment. When a man has four sons and several grandsons and the man himself dies, an estate duty shall first of all be charged on the whole estate and a succession duty on each son on one-fourth of the whole estate.

A.—I do not propose two kinds of duties: there should only be a single duty on joint family properties.

Q.—You must consider all communities in the same manner. If there is a Christian with four sons and he dies, his estate will be charged and each son will inherit one-fourth of the estate: consequently a legacy duty will also be levied from each son.

A.—According to my proposal, two duties are not to be imposed in any case either of succession or survivorship.

Q.—Then you cannot charge according to the degree of relationship.

A.—You can: if a particular person dies and his property goes to four of his sons, each son pays on the amount he gets: there is no further duty.

Sir Percy Thompson. Q.—You would not charge on the corpus of the whole estate: then you do not have the English system at all.

A.—No.

Q.—Yet in the case of a Hindu, when a man dies, you would charge on the corpus of the whole estate?

A.—Because the joint property is one. The whole property belongs to the group.

Dr. Paranjpye. Q.—According to the Hindu Law, every man can say how much of his property belongs to him.

A.—He can't: he can merely calculate it for himself and until the moment of partition he cannot indicate any portion as his.

Q.—Partition is possible at any time and if he gets that partition, he can say how much of the property is his.

A.—Until partition no one can be definite about his share. A man may have ten children including a child 2 months old which may die. And on its death, each other member's share will get enlarged.

Q.—If a man has ten sons and the eldest son is a major, he can claim partition and he will get one-eleventh of the whole estate.

A.—But until he declares his intention for partition, he cannot say how much is due to him.

Q.—It is only this formality that matters?

A.—In law it is as important as anything else.

Q.—But it is only a formality in law. Practically every son may be supposed to be the possessor of one-eleventh of that estate.

A.—I have also thought over the matter. If we impose a single duty on the joint family, it may be a lighter duty than what is imposed on inheritance.

Q.—What a joint family can legitimately do is to make the youngest member of the family the managing member.

A.—The family has no choice in this respect. In law, the eldest member for the time being is the managing member.

Q.—Is there any law that the eldest son should be the managing member?

A.—Yes. That is the Hindu Law.

Note.—The presumption is that the eldest member is the manager, but the family may appoint another member in his place by common consent, though this fact has to be proved to rebut the general presumption.

Q.—If the eldest brother dies and he has a younger son, who will be the managing member?

A.—The eldest uncle will be the managing member. The eldest member of the family is always the managing member; the law recognizes it. It is not left to the option of the family.

Q.—Couldn't the family agree to make one particular man the managing member?

A.—*De facto;* not in law.

Sir Percy Thompson. Q.—You suggest the appointment of unofficial assessors and the prevalent opinion among many witnesses, certainly among all the commercial men we have examined, is that the tax-payer would not like particulars of his income to be disclosed to non-official assessors who might be competitors in business.

A.—There are some people who desire that their own financial position should not be disclosed to other people.

Q.—But it has been suggested to us that the tax-payers as a body would dislike it. The most you can get in the way of non-official co-operation would be a body of business men, at any rate in the larger towns, to whom a tax-payer could appeal if he liked.

A.—That may be the position we come to by way of compromise.

Q.—Do you think that there is anything in the suggestion that the tax-payers would resent their competitors in business being associated with the income-tax authorities?

A.—Some business men may not like to disclose their financial position. But in other countries I find that income-tax proceedings are actually published.

Q.—That is perfectly true: it is done in America.

A.—I do not see why people should play humbug, with regard to their real financial position, towards one another without disclosing their real affairs. In the interests of the country as a whole, it may be good that the income-tax returns are published.

Q.—If a non-official person is really going into the question of the profits that a man is making, he must get a good deal of information about his business.

A.—It will be a board and not a single person to whom I suggest an appeal, and it is only if the assessee so chooses, that a reference need be made to the board.

Q. Do you want that the reference to this board should be entirely at the option of the tax-payer?

A.—It may be so.

Q.—I do not think anybody can take exception to that, but if you are going to make the reference to the board behind the tax-payer's back, objections might be raised.

A.—The board need not, unless the assessee wishes, be brought into action.

The President. Q.—In the matter of accounts, you refer us to a Ceylon ordinance as being an authority for the penalizing of the use of any but registered book of accounts. Could you give us reference to that ordinance?

A.—I have got the reference at home. I shall write and let you know. Though the compulsory maintenance of accounts in respect of all assessees will not be easy, business men must be compelled to maintain them.

Dr. Paranjpye. Q.—You would not allow any other account books to be produced in courts?

A.—No. I have come across instances in which a dual system of accounts has been maintained, one for the income-tax authorities, and another for the law courts.

Sir Percy Thompson. Q.—Do you think it would be possible to do that?

A.—It would be in the case of business men.

Q.—In England it is not possible even with business men.

A.—So far as non-business people are concerned, it may not be possible on account of their want of education and training.

Q.—Do you think that people are more advanced in keeping accounts in India than they are in England?

A.—I do not say that: nor need they keep accounts of a high order.

Q.—I will give you an instance which is very common. Take a man who keeps a large public-house, the expenses of which run into many thousands of pounds a year. Surely it is not possible to keep such sets of accounts as you suggest there.

A.—It would be difficult for cultivators and agriculturists to keep accounts so well as business men, but accounts must be maintained by business men at least with regard to the business profits. If income-tax books are sealed with the seal of the income-tax authority, it would be difficult for them to maintain double accounts.

The President. Q.—You say that the tax laws should be made uniform for the whole country and left entirely under the control of the Central Government?

A.—Yes.

Q.—Do you apply that to land revenue?

A.—There is no statutory law so far as land revenue is concerned; it exists under the ancient custom.

Q.—Would you apply that to excise?

A.—I would.

Q.—How could you make the excise duty on liquor uniform for the whole country? At present the duty varies from place to place according to the facilities with which illicit manufacture can be conducted. In the jungly tracts where illicit liquor can be easily produced, there is only a nominal duty.

A.—Without uniformity, the burden of the tax may not be fairly distributed. When I proposed uniformity, I had in mind mainly the stamp duties, court-fees and registration fees.

Sir Percy Thompson. Q.—If you make the rates of duty uniform, it does mean that provinces cannot spend what they like. They have to cut their coat according to their cloth and you may have a province which may want money.

A.—Then provinces must develop their economic resources.

Q.—I presume they do all develop them.

A.—So far as stamp duties and court-fees are concerned, want of uniformity results in a differential incidence of the burden.

Q.—So you would fix the rate, administer, collect and just hand over so much money to the provinces?

A.—I only say that the law must be uniform for the whole country.

The President. Q.—You say that "The tax laws should be made uniform for the whole country, and left entirely under the control of the Central Government, so that not only the burden of taxation but the methods and machinery of administration may as far as possible be uniform throughout the country." So you would like the Central Government to collect the taxes and pay the proceeds to the Provincial Government, so far as their share goes?

A.—I think that it may be done, but I am particularly anxious about the uniformity of the burden of taxation.

Sir Percy Thompson. Q.—Under the Reforms the provinces want to control everything.

A.—I doubt very much whether the provinces are very keen about it. The provincial spirit is not so strong in this country as it is in Australia, Canada and other countries.

Q.—I thought the Provincial Councils were taking a good deal of interest in this respect.

A.—It is the separation that has spread the spirit. It does not come of its own accord, and it had not existed previously, at any rate to a noticeable degree.

8th May 1925.

BANGALORE.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Prof. A. J. SAUNDERS, M.A., F.R.E.S., Professor of Economics, the American College, Madura, was examined.

Written memorandum of Prof. Saunders.

Export duties.

1. Export duties are a legitimate source of public revenue; the purpose of such duties is to get the foreigner to pay as far as possible. That purpose may be accomplished if the taxing country has a monopoly on import commodities, which other countries want. In this respect India is fortunate in several commodities.

In several countries export duties are in force, as for instance, in the main suppliers. Because of the fact that India enjoys a virtual monopoly in the West Indies, nitrates in Chile, and coffee and rubber in Brazil.

2. India has at present five kinds of articles of export subject to an export duty. They are—rice, tea, jute (raw and manufactured), hides and skins, and pepper. In connection with the last three mentioned, India has almost a monopoly position, and in the case of the first two, she is one of the main suppliers. Because of the fact that India enjoys a virtual monopoly in the supply of these goods, and that other goods are not readily substituted for them, it is possible to shift any reasonable export tax on to the foreign buyers. What I am chiefly concerned with in this investigation is—

Can the rate of export tax be increased, and can we enlarge the list of commodities that might be subjected to an export duty?

3. The rates and total revenue on export duties for British India for the year 1923-24 are as follows:—

Commodity.	Rate.	Total Export Duty.
		Rs.
Rice	As. 3 per Indian maund of 82 lb.	1,18,21,957
Tea	Rs. 1-8 per 100 lbs.	50,06,090
Raw Jute (Cuttings)	,, 1-4 per bale of 400 lbs. ..	1,58,69,166
Manufactured Jute—		
(1) Sacking	,, 20 per ton	76,14,857
(2) Hessians	,, 32 per ton	1,22,96,034
Hides and Skins	5 per cent	25,33,110

Pepper (from Madras Presidency alone). . . . For January 1925 alone exports valued at Rs. 2,70,909. Do not know the rate.

In connection with the above list I will make the following suggestions:—

The market for Indian rice is well established, and Russia is now demanding Indian rice. The export rate may be increased to As. 4 per maund.

Because of the competition with China and Ceylon the tea rate may remain as at present.

The export of jute (raw and manufactured) is on the increase, which means that the demand is growing. In 1921-22 jute export duties amounted to 2.72 lakhs of rupees. In 1923-24 the export duties totalled 3.57 lakhs. The substitutes for jute, namely, hemp and flax, are one and a half times as costly as jute, and so cannot hope to compete with jute. Jute is therefore a safe monopoly. The maximum duty which jute can bear is about 50 per cent *ad valorem*, and if we impose a duty of about 25 per cent to be on the safe side, our position in the foreign market will not be endangered. The present specific duties are much below that figure, and steps should be taken therefore to increase the rate of duty. I would therefore suggest that the export duties on jute be raised to Rs. 1-8-0 for 400 lb. (cuttings), Rs. 24 per ton (sacking), and Rs. 36 per ton (hessians) for all exports to Germany and other non-British countries.

Hides and skins now carry 5 per cent export duty. That rate may be increased to 10 per cent for all exports to Germany and other non-British countries.

Pepper may remain as it is for the present.

4. As regards other commodities that may be expected to yield an export duty, I will mention—

(1) *Shellac.*—There is a large foreign demand for this commodity, and it can be made a close monopoly, because there does not exist a suitable substitute. It is a forest product, and could be made a State monopoly; I would suggest a 25 per cent export duty.

(2) *Ground-nuts.*—Large quantities are sent to Continental countries. This commodity may stand a 10 per cent export duty.

(3) *Coir.*—Large shipments go to Germany and the Netherlands. This commodity may stand a 10 per cent export duty.

(4) *Indian manufactured tobacco.*—Import duty now covers the foreign article, but I would suggest an excise duty on Indian manufactures, and a license duty for the sale of Indian tobacco goods.

(5) *The export of fertilisers.*—Large quantities of indigenous fertilisers from India are exported every year to Ceylon, Federated Malay States, Java, and even to Europe. These fertilisers include bones, bone meal, fish, ground-nuts, and oil-seeds. Ceylon is the chief customer for these fertilisers, and they are used on the tea estates of the colony to produce tea which we do not drink, instead of being used on the paddy fields of the Madras Presidency to produce rice, which we can and need to eat. That is the point; we need these fertilisers so badly in India that if necessary the export trade in them should be taxed out of existence. If that object were attained, and the export of fertilisers were prohibited by a heavy export tax, the revenue of the Government would suffer to that extent. But that loss would be more than compensated by the benefit that both the Government and the people would receive from agriculture by the use of that fertiliser on the land rather than exporting it to a foreign land.

I would put the export tax on fertilisers at 100 per cent.

(6) *Tourist tax.*—India receives thousands of tourists every year. I think there is a new source of revenue in that fact, if we can work out a satisfactory method of collection. These tourists take out of India every year lakhs of rupees worth of goods. It is all business for the country, but the public revenue benefits only indirectly by this stream of visitors. I would like to see the public revenue benefit more directly. There are at least two ways by which revenue may be obtained from tourists. They are:

(a) A declaration to the customs officer at the port of entry that the individual is a tourist visitor, and the payment of a Rs. 10 tourist tax to that officer; or

(b) An export duty on goods taken out of the country by declared tourists by declaration to and inspection by Customs Officers at the port of departure. This tax may be a 5 per cent *ad valorem* tax.

Whether such a tax appeals to the Committee or not there is a source of revenue here which should not be neglected. The United States of America levies a heavy passport charge, which is a source of revenue from American tourists going out of the country. Similarly, the Government of India may secure a revenue from tourists coming into India or purchasing in India.

I favour *ad valorem* duties wherever possible.

It is along these lines that I have been thinking and working in connection with export duties, and these suggestions are my answer to Q. 82.

Taxation.

I have had conferences recently on the question of Indian Taxation with Mr. K. Rama Ayyangar, M.L.A., for Madura; with Mr. A. Ramaiya, author of "A National System of Taxation"; and with Mr. R. Foulkes, President, Madura District Board. I am Professor of Economics; in our Senior Class in Public Finance we are just now dealing with Indian Taxation, and are discussing many of the problems which are being considered by the Indian Taxation Enquiry Committee.

The following are some of the conclusions which we are coming to in our discussions, and if the Taxation Committee think they are worth further investigation, I shall be pleased to meet and continue the discussions with them:—

The first thing is the relative merits of direct and indirect taxation as they apply to India. The policy I advocate is an extension of direct investigation, I shall be pleased to meet and continue the discussions with their burden of taxation, and to increase the taxes of the upper and more wealthy classes. On the principle that all receive benefit from the Government, and therefore all should pay something to the revenue of the State, the salt tax may be retained, but it should not be a heavy tax. Rs. 1-4-0 or even Re. 1 per maund is sufficient. If an universal tax is to be increased it may be well to consider lowering the income-tax from Rs. 2,000 to a minimum of Rs. 1,500 at 4 pies the rupee, the rates beyond that minimum remaining the same as at present.

The land tax, as at present administered, is generally regarded as very unsatisfactory. Madras Presidency is too heavily taxed, and Madras is called upon to pay far too much to the Central Government, while, on the other hand, Bengal is too lightly taxed. It is the difference between the two systems of permanent and temporary land tenure. That Bengal should be paying to-day the same rate on lands as she did 150 years ago, in spite of the great rise in prices and the enormous increase in land values, condemns that policy on the face of it. The question of equity here may be accomplished in one of two ways.

Apply the policy of income-tax to agriculture as well as to commerce and manufacture. It may be done by applying the regular income-tax rate to agriculture as well as to industries, but allowing rebates up to the extent of the land tax, or—and this is being advocated in the Madras Presidency—place Madras and the rest of India on a permanent land tenure with the same rate of land tax as Bengal, and then subject them all to a graduated agricultural income-tax. This will remove the present inequality which exists between Bengal and the temporary tenures. The point is Bengal is getting off too lightly.

Another reason for an agriculture income-tax is the report down our way that the Chetti community are withdrawing their money from commerce and industry and buying lands to escape the income-tax. That means that capital is being withdrawn from industry, and that is bad for the development of the country.

Another matter in this same connection, though it probably will come up in the later enquiry on economic conditions, is the subdivision of lands. I am in a position to know that the Indian practice is promoting poverty among the rural population. I have come to the conclusion for the economic improvement of the rural people and the general good of the whole country that I would tax out of existence the practice of minute subdivision and fragmentation of agricultural lands.

Any change in the land revenue system as suggested above would necessitate a redistribution of revenue heads between the Provincial and the Central Governments. It may be done by differentiating between agricultural income and income from all other sources, and placing one as a credit to the Central Government and the other to the Provincial Government.

In this recasting of Indian taxation system the question of an inheritance or succession tax should be considered. This, of course, will need careful handling, because of the Hindu Law of Inheritance and the joint family system of land-holdings. But Indian opinion down our way is

coming to the position that such a tax may be considered, and if it can be worked out satisfactorily it may be adopted. The problem centres round the joint family holding and the rights of the survivors. There will not be much difficulty in connection with industrial inheritance, but the joint family holding of lands may present some difficulties. While small holdings exist, exemptions would have to be allowed; for larger estates a graduated tax may be imposed, and the whole family made responsible for the payment of the tax.

The cotton excise tax is greatly disliked. Why not make it a profits' tax through an income or super income-tax? That is really what it is, and this method would afford relief to those who can show clearly that they are not making profits for some exceptional reason or other. An excise tax on all the producers alike only results in an increased cost to the consumers. But a tax on profits will get only the profit-makers, who should pay more, and exemptions to those who are not making profits will tend to keep prices down, which will be welcome to the consumers.

An export tax may be graduated with a higher rate for Indian monopolies, because the tax can easily be shifted to the foreigner, who is thus made to pay to Indian revenue. This must not be overdone, however, especially in connection with commodities which are not Indian monopolies, or competition will affect the demand for Indian goods, which result would not only interfere with Indian revenue, but would seriously interfere also with an industry.

The Committee may seem fit to recommend to local bodies a change in the tolls system. Tolls are archaic and ought to be abolished in India. No one likes them, and every one tries to evade them. A sufficient vehicle tax would be a much better system, and it could be levied so as to bring in much more than the present custom, and without the annoyance of the present practice.

These are some of the lines along which we have been discussing this taxation problem in the American College, Madura, and with a number of our prominent public men. I offer the suggestions to the Committee for what they are worth, and if they open up anything that may be further investigated, I shall be pleased to continue the discussions.

Prof. Saunders gave oral evidence as follows :—

The President. Q.—You are Professor of Economics in the American College, Madura?

A.—Yes.

Sir Percy Thompson. Q.—You say "India has at present five kinds of articles of export subject to an export duty. They are rice, tea, jute (raw and manufactured), hides and skins, and pepper. In connection with the last three mentioned, India has almost a monopoly position, and in the case of the first two, she is one of the main suppliers". What proportion of the world's production of hides and skins has India? I should think it is rather a small proportion.

A.—My impression is that the export of hides and skins from India is considerable. I got some of my information from the Madras Customs House. I think the matter is discussed in Findlay Shirras' book on Public Finance, and Vakil too has discussed it to some extent.

The President. Q.—You are familiar with the views of the Fiscal Commission on the subject?

A.—Yes.

Q.—You differ from them? They say, "We have received evidence that the hides are frequently allowed to rot on the carcasses, and that in consequence of the low prices, which have undoubtedly been accentuated by the export duty, a source of wealth, in the aggregate not inconsiderable, has actually been destroyed".

A.—The Indian trade in hides and skins could be greatly benefited if the ryots would observe one or two things, viz., the care of the hides after they have been taken off and the elimination of wasteful branding. If these two things are observed, the trade would be greatly improved.

Q.—They recommend the abolition of the duty on hides and say that a small revenue duty on skins might be successful.

A.—That might be. I suppose a distinction could be made between skins and hides. I do not know which is the more important of the two or which is the larger of the two.

Sir Percy Thompson. Q.—Do you accept the proposition that you would be justified in putting an export duty on an article when you have something of the nature of a monopoly?

A.—Yes; I think I would accept that principle.

Dr. Paranjpye. Q.—Also when you want to prohibit a thing going out of the country?

A.—That, of course, becomes a prohibitive duty. But the point is this: if there is not a monopoly and substitutes can be used in the place of the commodity, putting on a duty would mean the ruining of the trade of the country.

Sir Percy Thompson. Q.—Quite; and from that point of view, I suppose it is rather dangerous to put anything like a substantial duty on things like rice and tea.

A.—You take rice. The demand for rice is world-wide. I have no figures before me now, but I am sure the demand is on the increase. If that is so, then it may be that it can bear an export duty.

Q.—At any rate, will you agree with the view that if you put on an export duty, unless India fixes the world price for rice, the duty comes out of the pockets of the producer?

A.—Do you think India is not fixing the world price when Burma exports about 70 per cent of the world's rice demand?

Q.—I should not think she has anything in the nature of a monopoly. I have no doubt that the world price of rice must depend to a great extent on the crop in India.

The President. Q.—India and Burma together export about 50 per cent of the world's rice.

A.—I think Burma exports 70 per cent. Burma exports a much greater amount than India does. As India exports much less, perhaps it brings the figure down to 50.

Sir Percy Thompson. Q.—If India and Burma together export 50 per cent of the world's supply, surely Burma's export must be less than 50 per cent of the world's supply.

A.—I have not got the authority with me just now; but my impression is that Burma's export is much larger than India's.

Q.—Have you ever considered in the case of export duty on rice and tea, if you admit that any part of the duty is thrown on the producer, to whom the duty should go?

A.—To the province of origin. That would, of course, come in your classification of revenues between the Central and the Provincial Governments.

Q.—Would you say the same thing with regard to a real monopoly, such as jute?

A.—To be consistent, I think one would need say that those commodities which are provincial monopolies should go to the provincial revenue.

Q.—If they are monopolies, they should still go to the provincial revenue?

A.—Yes; I think so.

Dr. Hyder. Q.—Now, suppose India put a tax on the export of rice; what will happen? Reasoning on Sir Percy Thompson's assumption that India will not be able to compete in the world market and other people will try to meet the world demand, this must show itself in the increased efforts of the producers in other countries. But the land will not return such an increasing quantity of rice at the same cost. It would mean extra production at a greater cost. Therefore, to the extent that the rise in world's price takes place, the Indians can jump in and throw part of the burden on the foreign consumer. Is that correct?

A.—There is one thing—the state of the demand—which you must consider. The state of the demand is on the increase with the development in culture in China and Japan, and also in India. There is a greater demand for food-stuffs, and rice is the staple food here. You take Russia; Russia's demand for Indian rice is on the increase now. I think that with the 50 per cent export, India could stand an export duty.

Q.—Since the demand is not very elastic and production is subject to the law of diminishing returns, the probability is that there will be a rise of price; and to the extent that that rise in price takes place, India will be able to throw its burden on the foreign shoulders. Is there any flaw in that?

A.—No; I think that is quite correct. That is my idea too on the point.

Sir Percy Thompson.—Dr. Hyder makes the assumption that this is inelastic; that is a very big assumption.

Dr. Hyder.—It is a necessary raw material for industries. To that extent it is, no doubt, a raw material as well as an article of food.

Sir Percy Thompson.—But if the price of rice tends to rise, the effect will be that land which is at present cultivated with other food-stuffs will be cultivated with rice.

Dr. Hyder.—To the extent that the substitution of other land takes place, it favours our position. But rice can only be grown on a certain quality of land and to the extent that they grow rice they will have to apply more labour and more capital only to get a diminished return.

Sir Percy Thompson.—I put this suggestion, that if owing to the putting of this export duty on rice, you do raise the world price of rice, the world production outside India is likely to increase. Therefore, the supply of rice will be increased and that will counteract the tendency of the price of rice to rise.

Dr. Hyder. Q.—If the source of supply outside increased, that increase would only take place at an increasing cost. If it had been otherwise, that increase would have taken place even now. The fact that that increase does not exist now shows that the land outside is not able to produce extra rice at the prevailing price. Is there any flaw in that argument?

The witness.—I do not see any.

Dr. Hyder.—Such areas are not capable of expansion; the areas are all already under rice.

Sir Percy Thompson.—Why do you say they are not capable of expansion?

Dr. Hyder.—There are not many large swampy areas suitable for rice cultivation.

Sir Percy Thompson.—In many parts of the world there must be such areas—many lands which are not cultivated. There is any amount of land in Australia which is available to grow cotton and it does not grow anything to-day and the reason is that communications are bad.

Dr. Hyder. Q.—So the question is whether the extra rise that takes place can compensate the producers who bring under rice cultivation land which they do not at present consider advisable to use for that purpose.

The witness.—So far as Australia is concerned, there are two things against the production of rice: one is the irrigation problem and the other is the labour problem. These are the two reasons that would increase the cost, if production of rice was attempted in Australia.

Sir Percy Thompson.—I am not suggesting that it could be done in Australia. I only say that there are large areas in the world which could grow rice.

A.—Certainly, there is doubtless a great deal of land that might be put under cultivation of rice.

Q.—If you put a duty of 10 annas a maund, for instance, on rice, the effect may be that the price will go up by 2 annas. The cost of production must have some effect on the world price. But it will not affect the world price to the full extent of the duty and to that extent it must come partly from the pockets of the producers.

A.—It is only 3 annas now and I propose an anna more.

Q.—The probability is that taken over a long period, if the duty is 4 annas, 3 annas will come out of the pockets of the producers. If a big duty has a certain effect, a small duty will have the same effect in a lesser degree.

You want to raise the duty on jute from Rs. 1-4-0 to Rs. 1-8-0?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—Do you want to kill the goose that lays the golden egg?

A.—When you have a monopoly and there is a demand for the commodity, why should not the export duty be increased? There has been a considerable increase in demand since 1921-22. That would warrant an increase in the export duty.

Dr. Paranjpye. Q.—Business people have told us that there is a certain maximum limit, because if the duty is too high people will take to bulk handling of grain.

A.—The question is whether the increase would reach the upper limit.

The President. Q.—There has been an attempt to find substitutes quite recently?

A.—Yes. The substitute is dearer than the jute itself. So, I think there is no danger there. The point which Dr. Paranjpye has raised would apply to the United States of America and Canada; but I doubt whether it will apply to South America, Australia and other countries. I do not think bulk handling will take place there for a considerable time.

Q.—Do you think that the exemption of Bimlipatam jute is justified?

A.—I do not know. Have you any idea of the reason for that exemption?

Q.—It is not the same botanical plant. It is really a substitute. Is there any authority for your statement that there is a duty on pepper?

A.—I do not find the reference. It is not in the list supplied by the customs authorities in Madras.

Q.—There was a duty on pepper from Cochin. I think the duty has long since been abolished.

A.—I do not find it here. But I found it in one of the statements published by the "Madras Mail" with reference to the exports and imports.

Q.—Section 4 of the Indian Tariff Act reads thus: "On all pepper exported by sea from the Port of Cochin there shall be levied such duty not exceeding Rs. 9 per candy as the Governor of Fort St. George in Council may determine; and that the Customs Collector at the said port shall, after deducting the expenses of collection, pay the duty collected under this section to the Governments of Travancore and Cochin, in such proportion and in such manner as the Governor of Fort St. George in Council may direct". So there is a duty at one port levied on behalf of the two Indian States, but it is not the part of the customs tariff.

A.—May be. I think it was simply called an export duty on pepper.

Sir Percy Thompson. Q.—Have you any information how far shellac production is increasing in other countries?

A.—No.

The President. Q.—It was mentioned that America and Germany are undertaking the manufacture of lac. The Commerce Department gave us some figures that they laid much more stress on the fact that the export duty on lac will hit the local manufacturer. Already the other countries are making their own lac from Government forests and the export duty would simply kill the local trade. The next thing is that the local trade is badly organized.

A.—I see.

Q.—Actually at present lac pays a considerable royalty and there is also a cess of 4 annas a maund. Any serious increase in price will stimulate the production of substitutes and thereby ruin the Indian export trade.

A.—That is the point, of course, with regard to all the export duties. If a substitute is provided, there is the danger signal.

Sir Percy Thompson. Q.—All through you suggest *ad valorem* duties for exports. Is it not a very bad principle? It will make the prices still higher?

A.—If the Government is getting revenue according to the value, when the price value rises, their share in the revenue will also be increased.

Q.—When the price falls, it can stand a greater export duty?

A.—Yes, but my idea was to give the benefit of the increase to the Government revenue which you cannot do on the weight because it is constant. Weight does not change, but the price does and gives the advantage to the Government by the rise in prices. I recognize it will require more expense to collect.

Dr. Paranjpye. Q.—The benefit of the greater price can be obtained in the shape of income-tax receipts from the manufacturers?

A.—I doubt if that amounts to much.

Sir Percy Thompson. Q.—Is there any monopoly of ground-nuts in India? What use is made of it?

A.—There is no monopoly. They make oil from it.

Q.—Then you have got coir, is there any monopoly in it?

A.—It is not a monopoly, but the trade is tremendous in South India. If you take the West Coast, in Travancore, etc., the cocoanut industry is a very extensive industry and a great deal of exports go to Europe, Germany and other places.

Q.—Do you know for what purpose this coir is put?

A.—For ropes and matting, etc.

The President. Q.—Actually there is a large amount of waste in the manufacture of coir. You must see whether the manufacture develops properly before you can tax it.

A.—Yes. On the whole, it is better not to tax it.

Q.—The demand is very much less than the supply?

A.—Yes.

Sir Percy Thompson. Q.—It is a flourishing industry, but you would not tax it simply because it is a flourishing industry?

A.—Yes, it depends upon the demand. If the demand is strong, it is a fair question to ask whether it cannot stand an export duty.

Q.—The other thing you want to put a tax on is the export of fertilisers. There is one statement you make there which I do not understand. You say, "If the export of fertilisers were prohibited by a heavy export tax, the revenue of the Government would suffer to that extent". How?

A.—It would not suffer from not receiving the revenue from the export trade, because the export is done away with.

Q.—It does not receive anything now?

A.—What I had in mind was this. Government is receiving revenue if not directly by export duty, at least indirectly by the business from the trade of fertilisers going abroad. If that export trade were eliminated by a heavy export trade, Government would lose revenue from that business.

Q.—Do you mean to say income-tax on the profits of the exporters?

A.—Yes. My point is that if these fertilisers are used in the country, the farming industry will be benefited far more than the loss to the Government.

Q.—The other tax you have proposed is a tax on tourists?

A.—Well, it is only a suggestion. That is an alternative tax, to tax all tourists at the port of entry.

Dr. Hyder. Q.—Tourists are mostly Europeans and most of them are bureaucrats. They will disclaim liability to this tax.

A.—Take America, it puts a heavy passport tax upon persons going abroad. Their charges for passport facilities are much heavier than in any other country. It is one of the means of getting revenue from people going abroad. My idea was, therefore, might not the Government of India receive some compensation from persons coming into India.

Sir Percy Thompson. Q.—You admit when tourists come into this country they make lot of purchases and thus enrich this country in a way. But if you put on a tourist's tax you are simply discouraging money from coming into this country.

A.—I think in spite of this tax, many will come.

Q.—Why should they come to India, they can as well go to China or Japan, avoiding these items of cost?

Dr. Hyder. Q.—The other day I met an American young man who said that his father had given him Rs. 15,000 to make a world tour. Do you think that this ten rupees fee would make him divert his journey to China or Japan?

A.—No.

Sir Percy Thompson. Q.—Do you think we could get some thousands of rupees out of this tax or only some hundreds?

A.—If it is not lakhs of rupees, it is not worth while.

Q.—Why don't you make it a passport duty just like in America?

A.—I suppose that can be done.

Q.—Supposing you charge Rs. 10 to everybody who has got a passport which is not initially issued by the British authorities?

A.—That will land us in international questions. This proposal is not a very important one; it is only a suggestion. I am doubtful whether it will be worth while. It ought to be considered.

Dr. Hyder. Q.—Do you think a large number of tourists come into this country?

A.—I have not got statistics, but I think many of them come in.

The President. Q.—You have also suggested excise duty on Indian manufactured tobacco and licensing duty on the sales of Indian manufactured tobacco; how are you going to levy an excise duty on the Indian manufactured tobacco?

A.—That, of course, is a problem.

Q.—What would you class as Indian manufactured tobacco—only things manufactured on European lines?

A.—That is what I had in mind. If the manufacture is conducted in anything in the nature of a factory, my idea is that it ought to be registered and the returns ought to be made to the department, and on that basis an excise duty would be charged.

Q.—Would it not kill the industry and split it up into cottage industries?

A.—I do not think so. The tendency nowadays is towards large production.

Q.—Actually the cigar industry is falling off.

A.—I do not think so.

Q.—You might put an excise duty on the cigarettes, but on the cigar industry it would not be practicable, as the few factories that are already working are losing money.

A.—How are they losing?

Q.—Their export trade is falling off.

A.—I did not consider that point.

Q.—Then take cigarettes, you would put an excise duty on cigarettes?

A.—If that could be done by registering the factories that are making them.

Q.—Would you adopt the policy of stamping the packets?

A.—Yes.

Q.—You will have a license duty on the sales, what is the plan?

A.—That is very difficult. The sale is everywhere and the problem will be a very difficult one. My idea is that the place of sale ought to be licensed and the person vending ought to be licensed.

Q.—Would you break up the country into different areas and in each area sell the monopoly by auction: the monopolist would probably appoint the existing people and make them pay?

A.—The supervision of that will be a considerable task.

Q.—The monopolists would supervise.

A.—I suppose that could be done.

Q.—You advocate an extension of direct taxation and you would lower the income-tax to a minimum of Rs. 1,500?

A.—Yes.

Sir Percy Thompson. Q.—I don't quite follow why an increase in salt tax should necessitate the lowering of the limit of exemption from income-tax?

A.—It is reported that, when there was a heavy tax on salt, the consumption went off considerably: but I could not verify the statement.

Q.—Do you mean to say that the salt duty was so heavy that the actual total yield fell?

A.—I don't know about the yield, but the consumption fell.

Q.—Assume that the consumption fell, while the total yield of duty was greater; why should the limit of exemption from income-tax be lowered?

A.—If a universal tax is to be increased, it may be well to consider the lowering of the income-tax exemption limit. The idea I have in mind is the question of a universal tax. If you decrease the amount of salt tax, you are lessening the revenue to Government: what I am after is to make up that loss and I suggest that the loss may be made up by lowering the exemption limit of income-tax.

Q.—You say "if this universal tax is to be increased". Is it a misprint?

A.—You may substitute "a" for "this". I am in favour of a universal tax. Salt has been a universal tax. If you put the salt duty down, say, to Rs. 1-8-0 or Rs. 1-4-0 or even Re. 1, Government will be losing some revenue. How are you going to make up this loss? If you decrease the income-tax minimum, you can make up the deficiency from the salt tax. You are decreasing it on salt and increasing it on income-tax.

Dr. Hyder. Q.—But you say that you advocate an extension of direct taxation?

A.—Not absolutely; I believe in indirect taxes also.

Q.—Suppose the financial needs of the State require an addition to the revenue and the Government of India put up the tax on salt. The idea in your mind is that this tax would be paid by people who are comparatively poor, and to keep the scale even between the poor and rich, you would bring down the income-tax exemption limit to Rs. 1,500.

Sir Percy Thompson.—That is not so, because you say the rates beyond that minimum would remain the same as at present.

The President. Q.—May we develop this question of the reduction in the salt consumption a little further? Have you studied the figures?

A.—I made enquiries, but I found it difficult to get reliable figures and my information is scrappy on this point. I think consumption went down when the tax was high.

Q.—There is always a wild fluctuation in the consumption of the commodity round about the time of change of duty, but actually when the incidence is three annas a head, is it likely that a man will change his diet?

A.—Probably not. I do not think that the consumption has suffered very much.

Sir Percy Thompson. Q.—In regard to land revenue, you say that the "Madras Presidency is too heavily taxed, and Madras is called upon to pay far too much to the Central Government, while on the other hand Bengal is too lightly taxed." Madras does not pay any land revenue to the Central Government: it keeps all to itself.

A.—I am referring to the contribution.

Dr. Paranjpye. Q.—Have you studied the relative incidence of taxation in Madras and in other provinces?

A.—I have not gone into it.

Q.—Then you can't say that Madras is too heavily taxed. There is a big figure which is nominally a contribution from Madras, but under the Meston Settlement, Madras is given all its land revenue. Madras got about five crores more under the Meston Settlement, but it was asked to pay back out of it something like 3 crores and 80 lakhs of rupees, because the Government of India put larger resources in the hands of Madras.

A.—The land revenue is very heavy in Madras and the province gets the advantage of it; but on account of the heavy land tax the Government of India turn round and take a very large contribution for the Central Government.

Dr. Hyder.—The incidence of land revenue is heavier in these temporarily-settled areas than in Bengal. You should compare the incidence of land revenue of Madras with like areas.

The President.—If you take it per acre, it is so, but we have not yet arrived at any satisfactory standard of comparison.

Dr. Hyder. Q.—The real point is whether Madras is heavily taxed as compared with Bengal in regard to lands similarly situated.

A.—The question of land tax is not a great subject of controversy.

The President. Q.—Do you propose the remedy of reducing the rate of the land tax in all provinces down to the Bengal rate? Can you tell us what the Bengal rate is?

A.—I don't know.

Q.—Is there any such thing as the Bengal rate? It depends on the rate settled for each particular zamindari at the permanent settlement, and the incidence is more unequal perhaps in Bengal as between one area and another than in any other part of India.

A.—Yes.

Dr. Hyder. Q.—Would you take into account the total figure of land revenue in a province and then distribute it per acre?

A.—I don't think that would work very well.

Sir Percy Thompson. Q.—Would you base the comparison on the average of the rentals paid in open competition?

A.—Yes.

The President. Q.—Do you think there would be any considerable number of farmers who would be liable to income-tax?

A.—I suppose not: the income-tax would apply to large landholders.

Q.—Practically it would apply to rent-receivers.

Sir Percy Thompson. Q.—Would it amount to very much?

A.—That is the question. I think by taxing the income of the larger landholders Government would stand to benefit.

Q.—There would be certain cases where you can get big payments, but you would want an enormous machinery for it.

The President. Q.—In your part of the Presidency, would you get much out of the permanently-settled areas?

A.—Yes. In the Tanjore district, for example, there are *mirasidars* possessing 1,500 acres: it is a question whether they are paying their just quota of Government revenue. I do not think they are.

Q.—Practically the taxes would be paid by the rent-receivers and not by the actual farmers?

A.—Yes.

Sir Percy Thompson. Q.—Take a province like the Punjab where out of 3½ million cultivators you have only 2,300 paying a land revenue of as much as Rs. 500. That would mean that they would all fall below the exemption limit of Rs. 2,000.

A.—There will have to be a minimum and if you are to place Madras, for instance, on the same level as Bengal in the matter of permanent land revenue, there would be a considerable saving over the resettlement expenditure all the time.

The President. Q.—Have you visited the permanently-settled areas in your neighbourhood?

A.—No.

Q.—Can you give us any idea as to how they compare, as regards the prosperity of the people, with the temporarily-settled areas?

A.—I consider the peasant proprietors a little better off than those under the zamindars.

Q.—You say that the Chetti community are withdrawing their money from commerce and industry and buying lands to escape the income-tax?

A.—That is the report. I tried to investigate it, but I have not met with very much success, because it is a thing you can't find out.

Q.—You know that some of them have quite large zamindaris. Devakotta is quite a recent acquisition.

A.—The question is what is their motive in doing it.

Sir Percy Thompson. Q.—Would not the fact that the agricultural incomes are exempt reflect itself in the price they will have to pay for land?

A.—To some extent it would, but land price is subject to a number of considerations. It is not a question of market considerations alone.

Dr. Paranjpye. Q.—Then they would not escape income-tax, because the prices of land would be very much greater.

A.—The fact that the demand for land is on the increase would tend to increase the price of land, so that the difference between the higher price paid for the land and the income-tax may not be very much. It is a question that would have to be considered scientifically.

Q.—In your next paragraph you talk about sub-division of holdings and you refer us in your list of authorities to some literature on the subject. Are you in favour of legislation on the lines of Mr. Keatinge's Bill on the subject?

A.—Yes: I think the time has come when something like that ought to be considered.

Dr. Hyder. Q.—Could you prevent fractionisation by passing a law?

A.—No. I think a good deal of propaganda work will have to be done to point out to the people the actual disadvantages of fragmentation. I think they are coming to see that now.

Q.—There are some parts in Europe in which the eldest son has to go out of the family and live somewhere else, and some parts in Germany in which the youngest has to go out in order to leave the land to one person only. There is no law: it is a usage. Here we have our laws of inheritance and succession and you say you would tax out of existence the fragmentation of agricultural lands. Do you think it is possible?

A.—As I said, a great deal of educational work has to be done before the law would be effective. People are now beginning to see that these minute fragmentations are against their own interests, and I think very soon they would be prepared to accept a modification of that custom.

The President. Q.—You refer us to an article by Mr. Sundaram Reddi on the subject in which he says: "I think it is fairly well admitted that the refusal to recognize subdivisions of fields below a certain limit by the revenue department, or the withdrawal of the powers of the courts to recognize such subdivisions would only result in preventing the revenue records from being records of actual enjoyment, and in the courts themselves not being placed in a position to settle disputes as to possession and enjoyment." Was not the same point brought out when the matter was discussed by the Board of Agriculture on a motion by Mr. Keatinge?

A.—You are up against tradition which has been going on for centuries.

Q.—Mr. Sundaram Reddi quotes a lecture by the late Advocate-General in which he said that the first thing to be done is to get rid of the Mitakshara system and substitute for it a property law something similar to, but not identical with, the Dayabhaga system.

A.—I see.

Sir Percy Thompson. Q.—You would not relieve uneconomic holdings which are too small to support a family?

A.—No. The idea would be to make land revenue so large a tax upon small holdings that people would not be willing to accept a small piece of land.

Q.—The contrary has been suggested to us, namely, that when the holdings are so small you should exempt them from land revenue.

A.—I should take that to be an Indian point of view: the European point of view would be the reverse, viz., tax it out of existence.

The President. Q.—Then you go on to suggest a redistribution of revenue heads between the Provincial and Central Governments by giving agricultural income to the one and the income from all other sources to the other?

A.—It is merely a suggestion: it has to be worked out very carefully. How is this division of revenue to take place: what is the classification under which you will do it?

Q.—You may have seen from our questionnaire the line of our working. We have taken a proposal of Seligman's to adopt a combination of three plans—separation of sources, uniform administration and division of proceeds. What we are trying to do is to apply these three plans to each tax to see which suits it best. Can you give us any help in this?

A.—I am afraid not: I have not gone into the question of sources and distribution of revenue.

Q.—Let us go on to the succession tax which you recommend. In the case of the joint family, you propose to make the whole family responsible for the payment of the tax. So I take it that you would tax the family property with reference to the share of each?

A.—If you have a piece of land, it must yield revenue to Government. The question as to who is to be held responsible for it has to be determined by the person or persons in whose name it is held. In Europe it is held by an individual, in this country by a family. I would make the family that enjoys the land responsible for the payment of the duty.

Sir Percy Thompson. Q.—Would you make the death duties chargeable on the land?

A.—That would be holding a threat over them.

Q.—You do it in the case of land revenue: why not do it in the case of any other tax?

A.—The idea is to get a tax out of the land. You may hold it as a threat so that the people who do not want to forfeit the land would pay the tax. But I think there would be a great deal of trouble.

Q.—I was thinking of the ultimate recourse Government would have to: if they do not get it any other way, it must be from the land itself.

A.—I suppose there would have to be a guarantee.

Dr. Hyder.—In connection with the taxation of land which passes by inheritance the following argument was raised. Government say that they are the proprietors of the land, so that when the property passes at death, Government would come down and say, "You have to pay some kind of inheritance or succession tax." Government is either the sole owner or a partner: to the extent that they are a partner, they have got to give relief to us. They cannot tax their own property.

The President.—The tax would only be levied on the beneficial interest. There is no Government share in issue in the levy of the death duty.

Dr. Hyder. Q.—They say: "Either we are the owners of the land, or the Government is the owner. If the Government is the owner, then the land belongs to the Government. We pay the land revenue; we cultivate the land and pay the land revenue. What we get is derived from our toil. We do not see the justice of this taxation."

A.—That applies when the definition of land revenue is rent. But if it is a tax, what is their argument?

Sir Percy Thompson. Q.—You say "There will not be much difficulty in connection with industrial inheritance". Is it different from the inheritance of landed property, so long as it is the property of the joint family?

A.—That is the point exactly. Industrial inheritance is not necessarily a joint-family concern.

Q.—Supposing it was?

A.—In that case there won't be much difference.

The President. Q.—With regard to cotton excise tax, you want to substitute for it an income-tax on profits—a special tax on profits. Would not that penalise the more efficient mills?

A.—It would theoretically; but is a capable business man going to cut down his profits in business in order to escape a profits tax? He is not going to limit his business simply to escape a profits tax.

Q.—He can manipulate his accounts.

A.—He may for the time being.

Sir Percy Thompson. Q.—The cotton excise tax is nothing akin to income-tax and super-tax; because the idea of the cotton excise tax is that it will be passed on to the consumer by way of an increase in price.

A.—There is a difference of opinion on that.

The President. Q.—If it is to be a tax on profits, why should you tax profits from cotton mills more than any other profits?

A.—That will apply to all industrial concerns.

Q.—You subject it to the income-tax in the usual way?

A.—But the point is, if a person can show that he is not making profits, why should he be taxed?

Q.—You say it really is a profits tax. I understood you to suggest the substitution of profits tax for the present tax; but they already pay a tax on their profits.

A.—Increase it to make up this difference of excise.

Q.—You would put a special income-tax on this particular industry?

A.—That would apply to other industries as well.

Q.—What other industries do you apply it to?

A.—Jute, for instance. What I am trying to get at is this. You put an excise duty upon cotton with the idea of getting everybody. It may be that a man may be starting the business and has not established himself sufficiently to make a profit. Then you will be injuring his business by charging him the excise. Why not omit that excise tax? Allow him an opportunity to develop and succeed. When his success comes, then get him through a profits tax.

Sir Percy Thompson. Q.—You are not injuring his business. Only he will have to sell the cloth for 3½ per cent more than he could if there was no excise tax. If there is an excise tax it is intended to be paid by the consumer.

A.—He may not get the whole of the 3½ per cent.

The President. Q.—To come to your proposal to put a special income-tax on cotton and jute mills, would not the result be simply to divert capital from those industries to other industries?

A.—I think not, unless it is a very excessive tax.

Q.—Or possibly to reduce wages.

A.—Again only if it is so heavy as to interfere with the business.

Q.—Have you any precedent for such discrimination as between different businesses?

A.—But there is an excise duty on cotton. There is a great deal of opposition on the principle: "Why tax a certain business before you know whether it is paying or not. Wait until they are making profits and then tax them; get your tax from the profits and not otherwise".

Q.—Then you suggest the abolition of tolls and the introduction of a vehicle tax in place of it. Do you apply that both to tolls in the district as well as to tolls in the towns?

A.—Yes; in the towns they do not have tolls.

Q.—They do not tax the vehicles registered in the town; but they have a toll for a vehicle coming into the town. Now if you abolish the toll, how are you going to get at the vehicle coming from outside the town?

A.—It has to be kept out and taxed.

Q.—Then you retain the toll-bar?

A.—My point is that vehicles plying out of the town would have to be taxed when they seek to do business in the town.

Q.—A vehicle which is kept outside and plies inside the town?

A.—It would be paying the tax to the district board.

Q.—You have got the municipality within a certain limit. All the vehicles inside are registered. Now how are you going to deal with a vehicle coming from outside? How will you deal with the through traffic? If a man with a motor car passes through the municipality once, has he to pay a year's license?

A.—Of course, a distinction has to be made.

Q.—What would you make him pay?

A.—If it is a motor service, he will pay on the yearly basis. If a private man, a municipal tax.

Q.—But how do you catch him without a toll gate?

A.—Yes; there is a difficulty there. He will have to declare the use of his vehicle.

Q.—Then there must be a toll gate.

A.—No; not necessarily.

Sir Percy Thompson. Q.—Suppose I am making a trip to Mysore. Instead of paying a fee at the toll gate, if I have to go to the municipal office and make a declaration, is it not a bigger nuisance?

A.—How do you do it in England?

Q.—They have got a national fund formed out of the tax on motor cars.

A.—Cannot something be done here like that?

The President. Q.—In a municipality you can manage the toll tax in respect of a vehicle. But when you get out into the district, the great bulk of the vehicles are farm carts and a lot of farm carts would not use the metal led roads at all.

A.—You can make exemptions in some cases. It may be different for different purposes in different localities. Each vehicle will have to be licensed according to its use.

Q.—But how are you going to find it out unless you have got the toll gate? I think your alternative proposal will give infinitely more trouble than the toll gate, objectionable as it is.

A.—We had that matter discussed in Madura. Mr. Foulkes proposed to his district board a suggestion for their consideration. In the first place, it was thought desirable to eliminate the tolls and substitute something else. He found almost an universal opposition on the part of the district board members to the abolition of the toll gate. They did not want a change and they preferred the present method.

Sir Percy Thompson. Q.—Would you have a common authority which would be responsible for the maintenance of the roads? In England, for instance, it is the county council that is responsible for the maintenance of the roads.

A.—That is what is done by the district boards. They have the control of the roads.

Q.—When you get into the town you have the town looking after them. Can you not combine the two authorities?

A.—Yes; it might be much better.

The President. Q.—Would not that lead to all the money going to the main roads and the village roads being neglected? Is it not a constant cry of the inhabitants of the outlying parts of the district that no attention is paid to the village roads though they pay land cess?

A.—I do not see how you are going to remove the difficulty. If you have the district as the unit, things might improve.

Q.—The idea is that, by decentralisation attention would be paid to the local areas. The taluk board, being in touch with the needs of the particular villages, spends the money on the village roads and does not spend on the main roads which are useful only for people using motor cars.

A.—Yes.

18th May 1925.

OOTACAMUND.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. P. HAWKINS, A.C.H., M.I.C.E., Chief Engineer for Irrigation, Madras, was examined.

Written memorandum of Mr. Hawkins.

Q. 13.—The reply depends upon the nature of the commercial or semi-commercial undertakings. These may be classed as—

(i) *Public services*—e.g., posts and telegraphs, irrigation, State-owned hydro-electrical undertakings.

(ii) *State industrial undertakings*—e.g., industries run by the Department of Industries.

(iii) *State commercial undertakings*—e.g., forests exploitation.

(iv) *Minor undertakings subsidiary to the larger services*—e.g., Government workshops.

2. Undertakings in class (ii) are run not for public services but for the purpose of encouraging the development of particular industries by private enterprise, and as private enterprise is not likely to take up an undertaking which does not offer a commercial return, a commercial return should be the objective.

Class (iii) includes purely commercial undertakings, and a commercial return should be the ultimate objective.

Class (iv) includes undertakings run merely for the services of the main services to which they are subsidiary. They should supply to the main service at cost price (i.e., 'bare return'), should be regarded not as water-tight compartments, but as integral portions of the main service organization, and should be judged by the ordinary criteria of efficiency and economy, having regard to the financial interest of the State in the main undertaking. They should therefore aim at a 'bare return' on the capital invested, taking into account so far as possible savings effected in supply to the main undertaking at less than commercial market price. In this connection, I regard the objections to such undertakings occasionally put forward on the ground of unfair competition with private enterprise as absolutely unjustified, and would meet them on the ground that the State is as fully justified in supplying to public services at cost price in the interests of the tax-payer as, for instance, a large shipping concern is in underwriting its own risks in the interests of the shareholders instead of insuring outside. This has a bearing on the question, because such objections are based on the factor of supply at less than market rates.

3. Class (i) includes undertakings which are definitely and solely public services, even though of a semi-commercial nature. It is, I think, an accepted principle that public services should be provided at as nearly as possible cost price. In this class, therefore, the element of taxation appears in any profits, made in excess of the 'bare return' on capital invested,

including service of loan and working expenses in so far as these profits are credited to the general revenues. If this view be accepted, the issue then is, not whether the objective should be a 'bare return' or a 'commercial return', but whether public services of either class are suitable media of taxation.

4. There is, so far as I know, no accepted principle which is opposed to the taxation of public service of these classes for the purpose of raising revenue. Such taxation is indirect, and of the so-called 'voluntary' class. All these services, however, contribute directly to the commercial and industrial development and prosperity of the country, and the economic limit to taxation is the point at which this development would be adversely affected. Subject to these limits the 'tax' or charge in excess of the 'bare return', as in the case of any other form of taxation, should be dictated by the financial requirements of the State.

5. These principles may be held to apply to irrigation and Government power undertakings (hydro-electric). In both cases Government develops natural resources to provide public services.

The objective of irrigation is to provide and increase food supplies and industrial crops. The object of a supply of power, so far as the State is concerned, is mainly industrial development. Both are public services, and the prices charged should be based on the 'bare return'. Both are suitable media of taxation subject to the economic limit, but in the cases of new irrigation works and of power supply the economic limit of taxation is low. As regards irrigation, please see my separate note on this. As regards power, the first essential for industrial development is cheap power, and any considerable taxation would defeat the object in view.

Q. 15.—As regards old works in this Presidency, e.g., the Godavari and Kistna delta systems, the water-rate proper, or the portion of assessment representing water-rate, may be taken as based on 'bare return' and therefore correct on the average, but the taxation element is very low in view of existing economic conditions. The charges are still based on the economic conditions of many years ago. The system is a compounded assessment for registered wet lands and a water-rate for casual or unguaranteed irrigation. As regards new works, the 'bare return' is approaching the economic limit in this presidency (see my separate note on water-rates).

As regards the systems suggested, I consider the correct system is the 'bare return' (working expenses *plus* interest on capital) as the water-rate, and a taxation charge, recovered as an addition to land revenue. I am strongly in favour of charging by volume. Selling the water by auction would be impossible in this Presidency, and I fail to see how it could be done elsewhere as a general practice.

Q. 16.—There can be no doubt that the State is entitled to tax the increase in values. This would be a betterment tax, but the option might be given of compounding. Such compounding fees should be applied to the reduction of capitalization of the project. The objection to compounding taxation is the same as the objection to permanent settlement. It precludes the State from taking its legitimate share in the increased prosperity of the individual resulting from improved economic conditions.

NOTE ON WATER-RATES.

Demi-official from V. RAMAKRISHNA, Esq., Under Secretary to Government, Revenue Department, to P. HAWKINS, Esq., A.C.H., M.I.C.E., Chief Engineer and Joint Secretary to Government, Public Works Department (Irrigation), dated the 8th April 1925, No. 1301 B/25-2.

I am to enclose for your perusal a note on the principles for the levy of water-rates in the provinces of the Punjab, the Central Provinces and Bihar and Orissa received from the President of the Taxation Enquiry Committee and a note by the Chief Engineer of the United Provinces on the irrigation system in force in that province. It is reported that the Committee have not so far found that the Government of any province have a defined policy on the subject. I am to request you to go through the enclosed papers and to see whether you can help the Committee in arriving at a more definite policy on the subject. The Committee will stay in Madras from the 20th to 26th April 1925.

ENCLOSURES

(1)

Note on the principles for the levy of water-rates.

The following principles emerge from the evidence of the witnesses:—

Punjab.—That the irrigation enterprise should be treated as a whole, the profits on the more favourably situated schemes going to make good the loss of the others.

2. That the rates should be uniform.

3. That the supply of water should, roughly speaking, be so regulated that each man should get enough for an average rotation of crops and no more.

4. That the charge should vary with the crop in order—

(*a*) to enable the ryot to pay most when he has most money, and

(*b*) to take for the Government a share of special profits.

5. That the rates should be varied periodically with reference to prices.

Central Provinces.—The irrigation works are all protective and in good seasons crops can be grown without them. The procedure followed is to secure agreements for a term of years from as many ryots as possible as a measure of insurance both to the Government and the ryot and charge them at a lower rate than the ryots who take water on demand. The supply to the latter is not guaranteed.

Bihar and Orissa.—The general tax-payer should not pay for a benefit to a favoured class until the charge for water to that class has been pushed up to the highest point possible short of causing the service to be refused.

(2)

Note on the system of irrigation in force in the United Provinces as compared with that in the adjoining provinces, by the Chief Engineer, Public Works Department, Irrigation Branch, United Provinces.

Punjab.—The vast majority of the area irrigated in the Punjab lies in what is known as the canal colonies. Here the rainfall is only 10 to 12 inches every year, and spring level is consequently so low that practically no crop can be raised without the aid of canal water. Before the introduction of the canal the country was barren waste and Government took over the land from the few nomad tribes of graziers who inhabited the area. The land was then divided into squares, village-sites and roads fixed and canals designed to give irrigation to the whole of the area set aside for cultivation, generally 60 to 80 per cent of the total area of each village. The land is uniform, and it can be assumed that the crops given will be uniform, and therefore it is possible to give a certain size of outlet or module per unit of area.

In this area the vast amount of the land is sown with wheat, little sugarcane is grown and rice is not sown at all. The only problem before the irrigation officer is to see that each unit of area gets its fair share of water. To do this modules are used to a great extent, which prevent the energetic cultivator from stealing more than his fair share of water by digging a deep channel below the outlet and thereby increasing the head.

On the Western Jumna, Sirhind and older canals of the province, the system of irrigation is somewhat different owing to the fact that rainfall is greater and spring level is high and it would be impossible to give the same intensity of irrigation without water-logging the country. The system is therefore practically the same as on the canals in the adjoining area in the United Provinces where well-irrigation to a large extent takes the place of canal-irrigation. This will be described later.

Bihar and Orissa.—In Bihar and Orissa the system of irrigation is entirely different from that in the Punjab. Here great rivers like the Sone running off the rocky hills of Baghelkand and Chota Nagpur give enormous discharges in the rains, the supply diminishing to a trickle at the end of the cold weather, there being no assured supplies for *rabi* and ample water during *kharif*. Rice is the great crop of the country and little attention is paid to others as far as irrigation is concerned. Thus, over 80 per cent

of the total area irrigated each year is under rice, as against 8 per cent in the United Provinces. The country is divided into blocks for rice cultivation and the canal officers enter into leases to give an assured supply to these blocks for 12, 7 or 5 years as the case may be. Water is also given on application for one year only, but then the rates are considerably higher.

The canal officer's chief duty is to see that water is not taken beyond the limits of each block, and if it is so taken, higher rates for this outside area are assessed accordingly. For the rest supplies during the rice season are ample, and water is given freely. The Sone canal system has 1,602 miles of canal and the head discharge is 6,400 cusecs or 4 cusecs per mile, as compared with an average discharge of only 2 cusecs per mile on the canals in the United Provinces.

Central Provinces.—Irrigation in the Central Provinces is in its infancy; the average area irrigated for the past five years has only been 427,000 acres. Over 96 per cent of this area is rice irrigation, and so there is practically no other crop irrigated.

The canals are nearly all fed from storage reservoirs and the country is somewhat similar to Bundelkhand, but there does not appear to be the same difficulty over the soil factor, which will be explained later in connection with storage works in these provinces.

Irrigation is developing very slowly and Government is doing all in its power to demonstrate the value of canal water. The people are backward, belonging for most part to the aboriginal tribes of Central India. It was found that at ordinary irrigation rates the cultivators put off taking canal water till it was too late to supply all the water required in the time available.

In order to induce people to take water freely, the irrigation rate has been reduced considerably for those who will agree to pay rates on the whole rice area which can be irrigated every year. In these agreement areas the main conditions of agreement are—

(*a*) Villages under agreement pay for irrigation in all years whether water is required or not.

(*b*) Payment is made by the occupiers of the whole rice area under command in so far as it is cultivated with rice.

(*c*) In the event of crops of a certain standard not being obtained, Government grants remissions of water-rate in the area concerned.

(*d*) Agreement areas get first claim on the water available, and no water is given elsewhere unless this can be done without detriment to the area under agreement.

Agreements are confined almost exclusively to rice; there are only two small areas where they are in force for *rabi;* rice *chaks* do not vary from year to year and therefore leases and agreements are possible. All other irrigation changes with the rotation of crops; an owner may grow crops which need water one year and not the next, and so agreements are out of the question.

People having entered into agreements take water freely and do not wait till the last moment when it is too late to save their crop. Government also gets an assured revenue every year, but this revenue is very low since agreement rates are generally about half the normal rates.

United Provinces.—The irrigation problems in the United Provinces are much more varied than in any of the surrounding provinces. There are three distinct tracts, each differing entirely from others. To the north there is the submontane tract of Rohilkhand where the rainfall varies from 60 inches down to 35 inches a year and spring level is rarely more than 10 feet below the ground. Here the canals are fed by numerous small *tarai* streams and the supplies are very precarious. There are large rice *chaks* as in Bihar interspersed with high lands on which *rabi* and sugarcane are grown. It is impossible to enter into long leases since supplies are precarious, but rice irrigation is done by *chak* as in Bihar. The people put in applications, and if they take water they pay for the whole *chak*, since once the canal outlet is opened the water flows from field to field down the whole depression forming the *chak*, and it is impossible to say that one field has got canal water and not another. In the rabi season the higher grounds in this area rarely require more than one watering to bring the crops to maturity. For this reason the irrigation rates are very low in Rohilkhand.

Then there is the main tract of irrigation in the Ganges-Jumna Doab, which contains over 80 per cent of the irrigation in the provinces. Here the rainfall varies from 25 to 35 inches a year and the demand for water is keen. Every kind of crop is grown, principally wheat, cotton, sugarcane, rice and peas; each requires its own varying amount of water, and everywhere irrigation has to be given sparingly, because spring level is fairly high and supplies are none too plentiful. Many small *doabs* which would have been glad of water have had to be omitted; the remainder is only given water for about 35 to 45 per cent of the land actually under command; the rest must get irrigation from wells or grow crops such as gram and *arhar* which often do not need irrigation at all.

Irrigation rates in this main tract are higher than elsewhere. The country is very rich, the demand for water keen and the people can well afford to pay.

The country is not uniform as in the canal colonies of the Punjab, and before the size of outlet can be fixed, it is necessary to consider the class of crop and the amount of existing well irrigation. It has been the practice in the past to fix a maximum percentage to be irrigated from all sources and deduct from this the percentage of existing well-irrigation which is likely to continue to be irrigated from wells, by reason of its distance from the canal or village water course, and canal water is then given for the remainder. The area to be irrigated by each canal outlet is thus settled, but before the size of the outlet can be fixed, it is necessary to decide on future running of the channel. It has been found that when supplies are limited—as they almost always are in the *rabi* season—it is not a sound policy to run short supplies in every channel; for then there are absorption losses in every mile. Main lines only are run constantly, while the distributaries off these are run with full discharge every second week, and thus losses are reduced and there is more water for the cultivator. When therefore the area to be irrigated from any outlet has been settled, the size of outlet is fixed according to this area, but in the case of *rabi* irrigation it must also depend on whether the channel will be run with a constant or alternate discharge. On some of the older canals all these factors were not taken into account, and some of the more powerful cultivators were able to establish a right to more than their fair share of water. Efforts have been made for some time to rectify this state of affairs, but it is a difficult matter to withdraw canal water from any field once given for a certain number of years, especially if it has been classed as 'wet' at the last settlement and revenue assessed accordingly.

Lastly, there is the tract south of the Jumna river in Bundelkhand. Here the rainfall varies from 35 to 45 inches. The country is often steep, and there are rocky hills in which the rivers and streams rise, and these run enormous floods in the rains, but quickly dwindle to nothing. Storage lakes are necessary everywhere for use when the river supplies give out.

The soil factor comes in here to a very great extent; there is little good *mativar* and consequently there is very little rice sown. On the Batva canal last year only two acres of rice were irrigated against 56,000 acres of wheat generally mixed with grain. In wet years the demand for water is never keen and even in ordinary years large areas of the retentive black cotton soils require no water. In dry years, which are very frequent, water runs off the steep slopes quickly, and it is extremely difficult to meet the demand with the limited amount of water in the reservoirs. The country has been ravaged by famines in the past before canals were introduced, and the people are poor and improvident, many of them belonging to the aboriginal tribes of Central India. It is impossible to charge high rates here, and Government does not attempt to do so since all irrigation works are looked upon as of a famine protective nature.

One of the greatest difficulties in Bundelkhand is the distribution of water in dry years. There is generally little demand till the rains fail in September, and then there is a sudden cry for water to save the *kharif* crop usually from those cultivators who never take canal water in ordinary years. If all these were given water, the reservoirs would often be run dry and there would be none left for the *rabi* customers.

It has been the practice therefore to refuse water except when there is any to spare, trusting that at least a fair share of the *kharif* will give a crop even if reduced, and so the water is stored for the *rabi*. It used to be the practice till 1920 to utilize, if necessary, the whole of the storage available, to sow as large an area as possible and gamble on the winter rains.

If these came, the country was saved; otherwise there was disaster where there were light soils, though probably the retentive black soils once given a good soaking yielded a fair crop. This policy leads to many complaints from the cultivators of the light soils who are the regular customers for canal water in normal years. Of late years, therefore, it has been the practice to hold up at least 40 per cent of the water stored and make sure of maturing as much as possible of the crop of these people who support the canals in the years of plenty.

Except on a few of the new canals, irrigation is not so backward as in the Central Provinces, and there seems no reason to introduce the agreement system since the people would only come under such a system if the rates were reduced considerably; and as in most of the canals the available water stored is utilized during the *rabi* season, any system which would reduce the rates would not be a paying proposition.

It is very different in the Central Provinces where Government has to do all in their power to induce the cultivators to take water for rice since they do not require it later for *rabi*. An interesting experiment was tried in one canal division to induce the people to take water for black cotton soil (Mar) during rains; for three years water was given free, but the people did not avail themselves of this privilege, and the maximum area so irrigated in any one year was only 5,000 acres. This shows how impossible it would be to introduce the agreement system for *kharif* in Bundelkhand. If the people want water they will pay full rates, if they do not want it they will not take it even if given free.

It may be noted here that a contract system for selling water at outlet head, a lump sum being paid according to the size of outlet was tried for ten years from 1862 to 1872 on the eastern Jumna canal, but it failed absolutely, because the cultivators were unable to distribute the water fairly, nor could they agree among themselves as to the share which each should pay.

The present system in force in the United Provinces is the result of long years of experience. Committees have sat on one subject or another and experiments have been tried, but always it has been found best to distribute the water available as fairly as possible when the cultivators require it and only ask them to pay on the area which actually gets water and not even then unless the crop is brought to maturity.

Note by the Chief Engineer for Irrigation, Madras.

WATER-RATES.

(See also my replies to the questionnaire.)

1. (*a*) The land revenue and water-rates should be separated.

(*b*) The land revenue only should be considered as representing the State's share of the produce, i.e., as pure taxation; all the factors which vary the productivity or value of the land—apart from the price of water for irrigation—should be assessed in fixing the rates per acre under this head. Such factors would be classification of soil, availability of water-supply and class of source, etc.

(*c*) The land revenue should be assessed under three heads: (i) The land tax proper—corresponding to the 'dry rate,' (ii) a surcharge assessed on the basis of availability of water and class of source, and (iii) in the case of protective works or lands which take water only in unfavourable seasons, an 'insurance fee'.

Items (ii) and (iii) would include what is now sometimes known as a 'betterment fee' and the 'share of land revenue', and should be credited to irrigation funds. The whole of the taxation under (c) should be recoverable as arrears of land revenue.

(*d*) The 'water-rate' should be a price for the water, fixed by the cost of production. This would be recoverable under agreement. A clause has been included in the Madras Irrigation Bill making such agreements run with the land and binding on heirs and assigns.

2. Under this system, even supposing the ryots declined to take the water when it was available, they would still have to pay a tax for the facility offered, but such a contingency is unknown in this Presidency in cases where the soil is suitable for wet cultivation.

3. The items under (*c*) in paragraph 1 are legitimate forms of taxation and can consistently be fixed in common with other forms of taxation. Item (*d*) however is the price of a commodity. Ordinarily, the position is that the commodity can be produced or made available at a certain cost on which the price is based. The price is, in fact, determined by the cost of production, and if the consumer cannot or will not pay this price, the necessary works cannot be constructed, and therefore he cannot have the water. It appears illogical and is also inconvenient to treat the price of a commodity, which is already automatically determined by the cost of production, as taxation, and therefore subject to arbitrary modification.

4. To make the water-rates uniform, irrespective of the actual cost of the water, as suggested by the Punjab, would be inconsistent with the above principle, but on a settlement or resettlement of land revenue, the availability of a relatively cheap or expensive supply of water should be taken into account in assessing the surcharge—(*c*) (ii), paragraph 1. In other words, the tax claimed by the State should be proportionately greater where the supply of water is cheap, and less where it is expensive. This is in accordance with the principle that taxation should be proportionate to the net profits or taxable capacity, regarding the land revenue as analogous to income-tax, or supposing the land revenue be regarded as 'rent', it is consistent to vary the 'rent' in accordance with the facilities offered.

5. The Punjab proposes that the water-rate should vary (*a*) with the crop and (*b*) periodically with reference to prices. In accordance with the principles stated above, the water-rate should be reduced only when the supply of water available is insufficient for the crop, i.e., when the contract is not fulfilled. If the need for remission arises from any other cause, the remission should properly be effected under the land revenue head (*c*) (i), paragraph 1.

Variations of water-rates with reference to prices would be difficult to effect equitably, apart from being contrary to the foregoing principles. Ordinarily, when the prices of produce rise the cost of labour also rises. The proposal practically means treating the water-rates on the lines of a tax on profits, or income-tax. If this factor were to be taken into account, it should be provided for under the land revenue head (*c*) (i), paragraph 1, or by introducing a fourth sub-head into the land revenue—paragraph 1 (*c*)—which would be practically an income-tax sub-head. I think there would be considerable difficulty in carrying out the proposal, though it might be equitable in principle. It is very desirable to avoid unnecessary complications.

6. The Punjab suggests that irrigation should be treated as a whole, profits on the more favourably situated schemes going to make good the loss on others, i.e., pooling the proceeds. This would apparently involve the complete separation of irrigation finance, as has been done in the case of railways; I should be fully in favour of this arrangement. This pooling system has very much to recommend it. With self-contained finances apart from general revenues, pooled profits, and a self-contained organization for the major irrigation works, we should be in a position to run the concern on business lines and administer irrigation finance in the way suggested by the Punjab. This would mean that we could devote a portion of our net profits direct to the service of loans for new irrigation works. The fact that we are making, say, 16 per cent on one project, is not at present held to justify the construction of another project which will barely cover the service of the loan. In the financial year 1923-24, the net return on 'productive' works, after deducting maintenance and working expenses including establishment, and interest on loans, was 10.52 per cent. The corresponding figure for 'productive' and 'non-productive' works together was 5.91 per cent, but the profits are credited to the general revenues and every new project has financially to justify itself independently. In this Presidency the cheaper sources of supply have been exhausted and future works of any importance must be storage works, some of them 'protective' works, and as irrigation receives altogether inadequate credit on account of indirect receipts, it will not be easy to justify some of these new works on a financial basis. But under the system proposed by the Punjab, if I have interpreted it correctly, the profits which would be credited to the irrigation 'pool' would have to be deducted from the general revenues, and if general revenues could not afford to finance new works under the present system they could not afford this deduction.

7. The Punjab proposes that the rates should be uniform. This again practically means a pooling of costs, the cheaper works in effect paying part of the cost of the more expensive ones. Assuming that this would apply only to the actual water-rate [see paragraph 1 (*d*)] there would be many advantages, but in any case it could not possibly apply to the older works; e.g., treating the major works as a single concern, it would perhaps be fair to increase the water-rates in the Godavari and Kistna deltas and reduce the Rs. 15 rate fixed for the recently sanctioned Cauvery-Mettur Project, but the general opposition to such a scheme would, I think, be too strong.

8. The Central Provinces deals with protective works. This class of work will be of great importance in this Presidency in the immediate future, since two out of the five large projects in view are of this type. The system in view in this Presidency, as in the Central Provinces, is that of agreements; but whereas in the Central Provinces the agreements are for a term of years, in this Presidency they will be, under the provisions of the Madras Irrigation Bill (see section 58), in perpetuity.

9. I agree with the Central Provinces principle that ryots who make a contract should pay less than ryots who take water only on demand. I consider however that in the case of all projects all cultivable lands which are commanded and included in the *ayacut* should pay the full assessed taxes under all three sections of the land revenue head—paragraph 1 (*c*)—whether they take water or not. The principle of compulsory payment of rates or taxes in return for amenities rendered available to the community by the local authorities or by the State is an established principle of taxation, and I fail to see why it should not be applied to irrigation *facilities*. The charge for water—paragraph 1 (*d*)—should then be recovered from those who use the water, either under agreement or on demand. In cases where 'demand' supply is not guaranteed, the 'insurance rate'—section (iii) of the land revenue head, paragraph 1 (*c*)—should not be levied but the water-rate should be higher, as in the Central Provinces. The landowners should also be encouraged to compound part of the water-rate by payment of a lump sum per acre which would be credited to the capital account of the project.

10. The note by the Chief Engineer for Irrigation, United Provinces, deals with a number of irrigation details. I am not sure to what extent information of this kind is required by the Taxation Enquiry Committee; so I am not giving details of this kind. With regard to distribution and methods of charging for water, there is, however, one point which I regard as of great importance—the principle of payment on measurement of water instead of per acre. This has been considered on one or two occasions in this Presidency—not very seriously perhaps, on account of the difficulties which would have to be surmounted. I am personally convinced that this is the ideal system. I am not pessimistic as to the difficulties in the way—they are mainly factors which at present impose difficulties in connection with certain other administrative reforms. I do not suggest that the change could be effected at once in existing irrigation systems, though I consider the system could be started under new projects. In any case, the acceptance of a principle as an objective is half way to practical accomplishment.

11. In theory, payment for water is even now by quantity. The charge is levied at a fixed sum per acre. The supply is calculated at a certain duty, so on the average the charge is for so much water per acre. The disadvantage of the present system is that there is no inducement to economy in the use of the water, and owing to extravagant use the supply provided is much more than is required. Each user takes as much as he can get; those more favourably situated in the upper reaches of canals and channels take too much and those lower down frequently suffer. The excess water has to be removed by expensive drains. The soil becomes water-logged and the deleterious effect of this on the soil is cumulative.

12. In the conditions obtaining in this Presidency, the question of economy of water is of predominating importance. The cheaper sources of supply are practically exhausted. The much larger sources still available involve expensive storage works. The Godavari and Kistna direct-flow systems can supply water at Rs. 5 per acre and pay a return of 17 and 16 per cent. The Cauvery-Mettur Storage Project with a water-rate of Rs. 15 per acre will only just cover the service of the loan. Yet, we have large areas available for extensions of irrigation by direct flow at small cost, but cannot extend because existing irrigation is working at duties as low as 20 acres per cusec instead of 70. In the case of existing irrigation it is

extremely difficult at present to effect either a compulsory or voluntary reduction of the supply to improve the duties. The only fact which impresses the ryot is that he pays the same and gets less water. Under the new Irrigation Bill it will probably be impossible to improve duties with the present system in operation. This waste of water involves a very serious loss of revenue which escapes notice, only because unfortunately it does not appear in the accounts. It also causes a serious reduction in output of crops as compared with the possibilities.

13. The outstanding difficulty in the way of sale of water by measurement is the difficulty in getting the ryots to co-operate and work together, and lack of co-operation is effective because of the subdivision of the land into small holdings, each of which has to be supplied separately. The resulting multiplication of small pipe sluices is an added cause of extravagance and difficulty. An incidental difficulty is the haphazard and irregular arrangement of the holdings as compared, for instance, with the Punjab canal colonies, where the designers were unfettered by existing conditions.

A second difficulty is inherent in the system of continuous flow. Under this system it is in practice much more difficult to maintain a uniform supply at certain seasons. (This difficulty is less apparent under a storage system.) The system was introduced some years ago in the Godavari and Kistna deltas, mainly with a view to render the supplies more automatic and less dependent upon the subordinate staff, but I doubt whether the change has made any marked difference in that respect, and I do not consider it either economical or efficient. In practice it has undoubtedly proved unsatisfactory.

The third difficulty which has been put forward is the cost of suitable modules and the loss of head involved in the use of a module.

14. As a means of ultimately reaching the ideal of payment for water by measurement, I would adopt the following scheme as a tentative and intermediate stage:—

(*a*) Select suitable areas for the experiment.

(*b*) Group the holdings under a suitable distributary.

(*c*) Allow through the distributary head sluice a 'normal' discharge at a very high duty.

For this supply a 'normal' water-rate per acre would be charged, this rate being considerably below the average in adjoining areas. Water in addition to the 'normal' supply would be given on application. All excess water so supplied would be charged extra at say, three times the 'normal' rate per cusec (based on the 'normal' duty). This extra charge would be distributed over the *ayacut* on an acerage basis. The alternative method, which would possibly appeal more to the ryot, would be to fix the 'normal' duty somewhat low, with a relatively high water-rate, and allow a rebate on water saved instead of a surcharge on extra water used. The third method which would probably be the best would be a combination of the first two, fixing a suitable duty and allowing a rebate on savings and making a surcharge on excess.

15. This system would require supervision by reliable staff and should be tried in the first instance in suitable areas as an experiment, preferably under a new project such as the Cauvery-Mettur. The staff should assist in the distribution amongst the ryots concerned, aided by the Agricultural Department. It would be necessary to explain the system clearly to the ryots, and the publication of successful results would tend to popularize the system. As a result of personal inquiries, I believe a system of this kind would be favourably received by the ryots and that it would tend to encourage co-operation. I can find no insuperable difficulty in applying this system, and it could be developed gradually into a complete system of payment on measurement.

Mr. Hawkins gave oral evidence as follows:—

The President. Q.—You are the Chief Engineer for Irrigation?

A.—Yes.

Q.—You are also in charge of the hydro-electric survey?

A.—Yes.

Dr. Hyder. Q.—You divide the commercial or semi-commercial undertakings into four classes, and you are specially interested in item No. (1) which includes posts and telegraphs, irrigation and State-owned hydro-electric undertakings. You have given a very clear statement, but I should like to ask you a preliminary question. You say, "All these services, however, contribute directly to the commercial and industrial development and prosperity of the country, and the economic limit to taxation is the point at which this development would be adversely affected. Subject to these limits, the 'tax' or charge in excess of the 'bare return' as in the case of any other form of taxation, should be dictated by the financial requirements of the State". Why don't you apply the same principle to irrigation?

A.—I do.

Q.—You would not charge these items under item (1). But you would charge the bare cost of water?

A.—I would charge the bare cost of water as water-rate and then I would treat what I call taxation separately altogether.

Q.—That is why I ask you, when you apply one principle to these industrial development schemes, what is the reason for your excluding irrigation from it? You subject lands which you irrigate to taxation. You would not do that with regard to industrial schemes. Why?

A.—In the case of agriculture, if we regard this as an industry it is the industry which is taxed in the form of land revenue. I would vary the 'tax' with the facilities, one of which is the supply of water for irrigation. I would not, however, impose a direct tax on the supply of water. The taxation side of irrigation I treat as part of land revenue. Similarly in the case of a Government supply of power the industry which it serves pays income-tax on profits. The source of revenue would be increased by the development of industry resulting from a supply of cheap power. I do not see any advantage in taxing the power separately and thus in effect putting up the price of the power and discouraging its use.

Q.—I quite agree with you that the first requisite is cheap power. That means you are giving a subsidy to the undertakings if you supply power at the cost price. Why don't you apply the same principle to irrigation?

Dr. Paranjpye. Q.—You charge for water at the cost price and you take a share of the profits in the land revenue. In the case of power the same principle would be followed by charging it at cost price *plus* a tax on the profits made by the industrial concerns?

A.—You mean profits made by the user of the power. That is what I mean. The tax on profit is recovered in the ordinary form of income-tax.

Q.—If Government gives cheap power to industrial undertakings, the Government might make it a condition that any profits made over and above a particular percentage will be shared by the Government.

A.—I think that is done even now. Does it not come under a separate head in the income-tax returns?

Q.—No. When a concern uses the cheap power, Government might say 6 per cent will go to the commercial undertaking and the remaining profit will be shared by both of us.

A.—I think it is a very difficult thing to do.

The President. Q.—You are drawing a distinction between the big profits made under irrigation and the small profits under industrial concerns. Supposing they are both the same making the same profit, will you still draw a distinction?

A.—I do not draw any distinction in principle.

Q.—What you are doing in each case is that you are charging for the commodity at its bare cost. After that you leave it in one case to the operation of land revenue and in the other to the operation of the income-tax.

A.—Yes.

Sir Percy Thompson. Q.—My difficulty is this. I do not think irrigation and power are the same thing. For this reason, that anybody can take the power, and in that case you do not select the beneficiaries. But in the case of irrigation, you have to select the beneficiaries. If you let a man have

the water at the cost price, you are giving him a big increment, but you are going to take only the bare cost of water. I do not quite see why these selected people should get off with the bare cost of water.

A.—In all cases we should charge the bare cost of water, but what I would call the taxation side, that is to say, the share of the produce, should be kept altogether separate. It can be fixed on a taxation basis. In the case of power and water alike, only those who are within reach of it and whose particular industrial pursuits enable them to use it can take advantage of it.

Dr. Hyder. Q.—Why don't you charge your water-rate on the principle of what the traffic would bear?

A.—Take a concrete example. We have just started the Mettur project. We have based the water-rates upon the actual cost of the water. There has been a good deal of discussion over this matter. We have had to push the rates up to Rs. 15 an acre. There is another place where the local people want to have irrigation very badly. There we worked out a scheme, and we have come to the conclusion that we cannot do it for anything less than Rs. 28 an acre.

Q.—You say the people are willing to pay Rs. 15 an acre?

A.—Yes.

Q.—Then it seems to me that Rs. 15 is nearer the correct water-rate?

A.—Yes. I am all in favour of pushing up the water-rates where they are low. I have always considered that the water-rates under the Kistna and Godavari schemes are absurdly low. But where such an increase over the actual cost of the water is made, it becomes taxation, and should be dealt with under land revenue.

Q.—Sir Percy Thompson has just now said that in the case of power anybody could take it but in the case of irrigation, it is used only by some people. Don't you think the real fact of the matter is this. The number of people who take water is much greater than the people who would take any power that you supply. If you give cheap power to the people you will be benefiting only few people who can afford to take the power, but if you give water at the cost price, surely, you will be conferring a benefit on many people from whom you take money. In the case of power, the benefit will be only for a few people, but in the case of irrigation the benefit will extend to the large majority of the people.

A.—I do not think I can accept this statement. I am taking a much wider view in this case, that is, promoting the prosperity of the country as a whole.

Q.—Considering that land is your first asset, don't you think that the benefits of your irrigation scheme would be enjoyed by greater number of people—almost all of whom are poor—than the benefits of your power scheme which would be enjoyed only by very few people who would be relatively smaller in number than the agriculturists?

A.—I would not accept the theory that the power would benefit only a very few people. I think in the long run it would benefit a very large number of people. By the supply of power, you will have increase of employment and you will have increased prosperity due to the improvement of industrial concerns.

Q.—I will ask you if the figures under the agricultural employment will be less, greater or equal to the increase in the industrial employment, considering the fact that the land will always remain as an asset in this Presidency.

A.—I agree entirely with you that agriculture will remain the staple industry.

Q.—May I refer you to your note on water-rates. You say, "A second difficulty is inherent in the system of continuous flow. Under this system it is in practice much more difficult to maintain a uniform supply at certain seasons". You mean continuous flow from a river or a canal?

A.—I mean a canal.

Q.—Is it not much more difficult to get a continuous flow of water under canals than in the case of rivers?

A.—It is not a point in which all the irrigation engineers agree. There are two schools. One is in favour of continuous flow of water, and the other is in favour of turns.

Q.—Then you would like the introduction of the system of giving water by volume?

A.—Yes, I am very strongly in favour of it.

Q.—What practical suggestion would you like to make in this connection?

A.—I would try to select suitable areas for experiments.

Q.—Then there are two difficulties, that is, holdings are scattered and that they are too many. To whom would you give this water, to the people of certain villages or areas?

A.—We shall have to introduce the system with great caution. Our aim should be to get the co-operation of the people as far as possible. No doubt it is a very difficult problem.

Q.—Would you entrust it to panchayats?

A.—Certainly, if we have good panchayats, I would give it to them.

Q.—I understand you have in this Presidency panchayats much more developed than elsewhere, so there won't be any difficulty.

A.—I should not say the panchayat system has been an outstanding success so far, but I think we could try these panchayats for co-operative distribution.

The President. Q.—I think you are speaking of water-rates panchayats.

A.—Yes, I am speaking of irrigation panchayats.

Dr. Paranjpye. Q.—Have you got any tank panchayats as they have in Mysore?

A.—I don't think we have them here.

Q.—Do you think it would be successful?

A.—Yes, I think it might be successful. I have already proposed these panchayats in some cases.

Dr. Hyder. Q.—Where you have tanks, could you not introduce this measure?

A.—I do not know whether it is possible in all the places. I have not considered this matter from the point of view of tank irrigation generally, but I have considered only from the point of view of channel irrigation.

The President.—You have actually a provision in the Irrigation Bill for both the panchayats and unions.

Dr. Hyder. Q.—I should like to refer you to the Q. 16. You say: "There can be no doubt that the State is entitled to tax the increase in values. This would be a betterment tax, but the option might be given of compounding. Such compounding fees should be applied to the reduction of capitalization of the project". The point that occurs to my mind is this. There would be these charges for the ryots to pay. First, there would be the water-rate which would correspond according to your view to the bare cost of supplying water; then you will have land revenue, and on the top of the land revenue you will have a surcharge which will vary according to the reliability of the water. Surely when you have made allowances for these things, do you think there would be much left for the man to pay any tax on the increase in values?

A.—I am afraid this is a point which I have not made clear enough. My whole idea is that we should charge for water practically at the cost price. But one fact may be urged against this, that in some cases of prospective new irrigation we have nearly reached the economic limit in this Presidency. Therefore what I meant was this, that we require a great deal of extension of irrigation to-day. We have a number of projects in view. We find ourselves in the position that we cannot make the water available except at very high prices. My whole meaning was that we should charge for the actual cost of water, simply because, if we charge more, it would go beyond the economic limit of the people. We should, therefore, charge what the water costs. Well then, if in any particular case the cost of water is below the economic limit, it is open to the State to impose any further taxation. In one place, the water costs Rs. 15 and therefore we would charge Rs. 15. In another place, it costs only Rs. 5 and therefore we would charge Rs. 5. But it is open to the State to increase the taxation

or land revenue in the latter area on the ground that the water supply is cheaper. There is another reason for that view which I would press strongly. It appears to me most inconvenient and most illogical to treat the price of irrigation water as a tax. Supposing, for instance, in one case the water costs, say, Rs. 15, to my mind it would be foolish to say that it should be supplied at Rs. 10. Then supposing we can supply water for Rs. 10 and the Legislative Council says it should be supplied only at Rs. 15, it is equally illogical. My whole conception is that these public services should be at cost price. It does not matter if it is electric power or anything else. It should be supplied at cost price. But it is open to the State to tax the industries, agriculture or others, which profit by the service.

Q.—You would not like the State to make any profits out of these?

A.—To my mind it is quite legitimate, but it should be under the taxation head.

Q.—To the ryot it matters very little one way or the other.

A.—It simplifies the matter. I have discussed this question with many members of the Legislative Council and they all seemed to agree with me. The moment we take this view, it clarifies many doubts.

Q.—Are there many insecure areas in your Presidency that are subject to famine?

A.—Oh yes, very many of them.

Q.—In such cases, don't you think that it is the duty of the State to supply water in the interests of the general good of the country?

A.—Yes, I quite agree with that view.

Q.—Was that not the idea with which the irrigation schemes were originally started?

A.—Yes.

Q.—My implication is this. The State should take a larger view, because it will be seen that the economic life of the people in this Presidency is not very secure. You should, therefore, agree that the duty of the State is to construct these canals and make the life of the people more secure.

A.—Certainly.

Q.—Even if it costs more, you will advocate this policy?

A.—Yes, but there are limits to this. For instance, we are now dealing with one such scheme. I have been endeavouring to work up a project in the Ceded districts. I have taken up the Tungabadra storage project. The estimate now works out to about 23 crores, which renders it in the form originally proposed financially impossible. If that project were undertaken, it would involve an annual loss of revenue of 73 lakhs of rupees. That means the State will have to contribute from the general revenues.

Q.—You say the capital cost is 23 crores, and you estimate a deficit of 73 lakhs of rupees every year?

A.—Yes. By this the State would have to find 73 lakhs of rupees at the cost of the general tax-payer.

Q.—Don't you admit that the general tax-payer in the Madras Presidency is the agriculturist, who forms 70 per cent of the population?

The President.— 70 per cent, not of the population, but of people who pay taxation.

Dr. Hyder. Q.—I mean the whole people.

A.—That I cannot say. I should like to see the statistics before I can reply to this question.

Dr. Paranjpye. Q.—Don't you think that the Tungabadra project would at least benefit 5 per cent of the people of this Presidency?

A.—I cannot give you any proportion.

Q.—As regards the system of charging by volume, have you seen Mr. Galletti's scheme? Do you think it is possible?

A.—I think it is possible. It follows the Italian model. That would be ultimately possible, and I don't see any reason why it should not be successful

but we will have to work up to that. The whole difficulty is to make the system workable. We must have the co-operation of the people concerned. If there are large holdings it would be easy, but if you have sub-division of holdings, it will be very difficult.

Dr. Hyder. Q.—Could you do this in the zamindari areas?

A.—I think you could make a start. The main advantage is economy in the use of water. If water costs Rs. 25 an acre, we must train our people to be economical. I can imagine no better way than to let them pay for the actual water used.

The President. Q.—If you sell it to the zamindar, he will sell it at a profit to the ryot?

A.—Possibly he would.

Q.—That is not a thing that has been provided for in the Irrigation Bill.

A.—No, it is a point to be considered.

Dr. Paranjpye. Q.—But there are tenancy laws in zamindari areas and you can apply those laws presumably to the charge for water.

A.—Possibly.

Dr. Hyder. Q.—You would have the zamindar merely as an intermediary to collect the water-rates, but they will be actually realized with the help of the *karnam* and other revenue officials.

A.—The zamindars are entitled to water.

The President. Q.—You would find that certain number of people claim a title to irrigation within a certain lump area and that the total of their titles is more than the total of the lump area. If A is excluded, he sues and gets a decree; then the zamindar excludes B, who sues and gets a decree and so on.

A.—Yes.

Dr. Hyder. Q.—I am quite ignorant of the conditions in Madras, but aren't your ryots waking up and becoming aware of how much they have to pay?

The President.—The trouble is this: You have an area of 100 acres and ryots who claim rights to irrigation, the total of which amounts to 110 acres. The zamindar excludes A who has 10 acres, because the area you have is 100 acres only. A sues and gets a decree for irrigation.

Dr. Hyder.—They would get tired of going to the law courts and ultimately they would come to an agreement since the zamindars' interests and the ryots' interests are bound up.

A.—I don't see any signs of that taking place. As I say, the system would be tentative. We shall have to advance slowly and carefully.

The President. Q.—Does the Irrigation Act deal with *mamul* wet?

A.—Yes, but it was cut about in Council.

Sir Percy Thompson. Q.—As I understand it, your scheme for charging water-rates is to put on a charge which will cover the bare cost of construction and maintenance.

A.—Yes, with a slight margin for fluctuations.

Q.—Then you would allow the State by means of its taxing machinery to get anything else out of the beneficiary in accordance with the benefit that he gets?

A.—Yes.

Q.—That may be the best scheme possible, but does it not involve this difficulty? Suppose under one scheme you can make a profit on water if you charge a water-rate of Rs. 5, under another you cannot make it unless you charge a water-rate of Rs. 15. In order to equalize the charge between the two sets of people, won't the State by means of its taxing machinery have to take the whole Rs. 10 for itself?

A.—I should think so probably. You will have to pool the taxation.

Q.—Don't you get the same result by a short-cut if right from the beginning instead of Rs. 5 you charge Rs. 15 all round, the Rs. 15 being determined by what people generally would be willing to pay for the benefit of water?

A.—One difficulty which would be unavoidable in this is that there is an element of income-tax in it. If one man has very good land and near to markets, etc., he has very great facilities and the supply of water he gets is worth more to him than to another man. You must allocate your taxation accordingly. In effect it is done now in fixing land revenue. At present the class of soil, the nearness of water source and other conditions are taken into account. Otherwise you would not be allowing any margin for fluctuation of amenities.

Dr. Paranjpye. Q.—You don't accept the principle of equality suggested by Sir Percy Thompson?

A.—It comes to that.

Sir Percy Thompson. Q.—I am going to presume that two blocks of land are represented by A and B, both equal in point of facilities for market and that both benefit to the same extent if you could put water on them. You could put water on land A at Rs. 5 and on land B at Rs. 15, and the people on A are perfectly willing to pay Rs. 15, if required. But you only charge them Rs. 5. You say you would leave the rates to be squared up by the State tax machinery?

A.—Yes.

Q.—In order to do that, you would have to charge block A Rs. 10 more than the other, and I can't quite see the machinery by which you can get this Rs. 10. Why should you not take the short-cut of charging Rs. 15 as water-rate?

A.—If you do that, you would first of all have to assess the actual cost of water for the project and then assess the amenities, i.e., the nature of the soil and so forth. It would be more difficult to do this. There is the Cauvery-Mettur project where the water costs Rs. 15 and there is the Godavari and Kistna deltas where we can supply water for Rs. 5. What machinery is there by which the water-rates could be raised from Rs. 5 to Rs. 15?

The President.—That could be done under a Government notification. I think Government have power to raise the water-rates by notification.

Q.—Aren't you in an extraordinarily illogical position in charging one man Rs. 5 and another Rs. 15 in exactly the same kind of area and for exactly the same water?

A.—I should submit that it is not illogical. We are charging the price for the commodity.

Q.—What do you mean by price?

A.—The actual cost of water to Government.

Q.—When you purchase a hat, you don't pay exactly what it costs the man, but you pay its cost *plus* profit.

A.—I am coming back to the principle of the State service.

Q.—What is the objection to the State making a profit?

A.—I have discussed these things with a good many members of the Legislative Council and I have found that the moment you say that the State is making a profit, they raise an objection. Generally, there is a feeling of objection to the State making profits.

Q.—Isn't that the very thing modern States are aiming at? I will read to you an extract from a passage about the hydro-electric schemes in foreign countries: "In Sweden the revenue from the business undertakings of the State has developed quite as markedly as the public revenue as a whole. In 1913 the capital invested amounted to 1,020 millions kroners or more than two-thirds of the funded State debt: the yield was more than 57 millions against a total debt charge of 23 millions." That is modern State socialism.

A.—It all depends upon which method is accepted. It is partly a theory and partly practice.

Sir Percy Thompson. Q.—I am not thinking of the political difficulties at the present moment.

A.—To a certain extent, I am.

Dr. Paranjpye.—The equality of the two pieces of land suggested by Sir Percy Thompson does not hold good in all respects. One is more favourably situated in regard to availability for being irrigated, and the other is not.

The President. Q.—Isn't that so in the case of new land under Mettur?

A.—Yes. In the Godavari, for instance, the water costs less: there is a natural facility for irrigation. In Mettur it costs more because the water has to be stored.

Dr. Hyder. Q.—Let us keep out the political difficulties and come to the theoretical difficulties. There can be no theoretical limit as to what the tenant can afford to pay. Should the State try to fix the value of the water, the people who take it would say that the State is unconscionable like a monopolist, but at any rate as regards the cost of production of water, it is quite definitely known.

A.—That is my idea.

Q.—But there is no definiteness about what the water is valued at.

A.—It is a question of assessing taxable capacity.

The President. Q.—You have had very considerable experience in the Government of India?

A.—Yes.

Q.—Do different provinces agree in their method of assessing what the water costs?

A.—I think so, on the whole. They do not all follow the same system in the levy of water-rates.

Q.—As regards the method of calculating land revenue due to irrigation, so far as we have seen, every province has a different formula and most of them are incomprehensible to a degree.

A.—They are very varying.

Q.—So that you have no uniform system of ascertaining the return?

A.—No.

Q.—It is very doubtful if any of the methods are correct.

A.—Probably.

Q.—The duty for water which you get in different provinces and even for the same works in one province is totally different?

A.—Yes.

Q.—So when you talk about what water costs per acre, you talk about a very indefinite thing.

A.—Yes, about a very variable thing.

Q.—So far from these facts being absolutely definite and final, all of them are extremely variable, viz., the quantity of water and therefore its cost, the return of land revenue due to irrigation and therefore the amount you have to recover.

A.—I should say that the cost of water per acre varies with the nature of the produce and cost of the works.

Q.—What about the duty?

A.—The cost of the water per acre of land varies with the duty.

Q.—There is variation even in the actual matter of calculating the costs, in the matter of overhead charges and in the matter of the charge for works existing before a particular irrigation work was constructed.

A.—To a small extent.

Q.—But in estimating what your new scheme is returning to you, you have to put up an imaginary figure of what you would have had to pay?

A.—Yes, the cost of repair of old works.

Q.—So that it is a series of guesses.

A.—At the same time, you ultimately arrive at a figure which would be the cost to the exchequer of the project.

Q.—As regards the method of assessing, you have one method, the Chief Engineer of the United Provinces a second, that of the Punjab, a third, and that of Burma, a fourth.

A.—As regards assessing the cost, the method is practically the same in all cases in the Presidency, but it varies to a certain extent where old irrigation works exist.

Q.—To arrive at your water-rate, you deduct the credit on account of land revenue due to irrigation from the cost of the scheme and then you say that the scheme pays the difference?

A.—Yes.

Sir Percy Thompson.—Suppose your scheme costs Rs. 1,00,000, you want Rs. 5 per cent on that, i.e., Rs. 5,000. Your maintenance is Rs. 5,000: you have a definite figure of Rs. 10,000. If you have to irrigate 10,000 acres of land, there is no question of transferring anything from land revenue. The amount you recover would cover your cost of construction and maintenance.

The President.—The amount you have to recover is arrived at by deducting from Rs. 10,000 land revenue due to irrigation.

Q.—You also would have a further effect due to the old works?

A.—Yes.

Q.—You don't get anything like the duty which you ought to get in this province?

A.—Not in many parts.

The Maharajadhiraja Bahadur of Burdwan. Q.—On page 231 in your note regarding water-rates you say that land revenue and water-rates should be separated. At present when a person pays land revenue, I understand that water-rate is included in it.

A.—In some cases it is a combined assessment.

Q.—Your idea is that, land revenue, being a form of tax, should be taxed separately, and water-rate should be charged as payment for a commodity?

A.—Yes.

Q.—Then you say on page 233, "The Central Provinces deals with protective works. This class of work will be of great importance in this Presidency in the immediate future, since two out of the five large projects in view are of this type." In the case of a protective work, it is perfectly clear that in some cases you will not be able to make it productive.

A.—Yes.

Q.—In other words, the State would have to pay for that work, because it is a protective work and not a productive work.

A.—Yes.

Q.—For instance, you may have a channel, not only for irrigation from which you can, so to speak, get a return by water-rates, but you may have it as a sort of protective work, so that the overflow of water during the rainy season may not flood the country.

A.—No, here it applies more to protection from famine.

Q.—Whatever kind of protective work you may have, it would not be so easy to get back your outlay of expenditure as it would be in the case of a productive work, where you can put on a water-rate.

A.—Flood protective works are charged to the capital account of the project. What we call protective works are works which are for protection from famine, and the return is looked for in the protection afforded.

Q.—You say that "this class of work will be of great importance in this Presidency in the immediate future, since two out of the five large projects in view are of this type." Which works do you refer to?

A.—I was referring to one in the Ceded Districts, the Tungabhadra, and the other to a project in the Coimbatore district.

Q.—In how many years do you think the Coimbatore project would bring in some profit to you?

A.—In three years.

Q.—Then you go on to say that "I agree with the Central Provinces principle that ryots who make a contract should pay less than the ryots who take water only on demand." We had a witness in Madras—a Government official—who told us that in certain zamindaris you charge water-rate at a lower rate than you charge from your own direct tenants. When you speak of ryots who take water only on demand, I take it that you have in view zamindari ryots who may be taking water on demand.

A.—No. I think you are referring to cases where a zamindar has a definite prescriptive right to certain water.

Q.—Supposing you have a particular channel and that channel has been constructed by the Government mainly for the benefit of its ryots in the temporarily-settled areas. Suppose that this channel passes through a permanently-settled area as well. Suppose I happen to be a zamindar in that area, and there is a tenant under me who takes water. Then do you charge him at the same rate as you charge the ryot in your temporarily-settled area?

The President. Q.—Your rate in the zamindari is water-rate; but in a temporarily-settled area you have the consolidated wet rate?

A.—Yes.

Q.—And the consolidated wet rate may be raised from time to time and it may amount to more than the rate in a zamindari area?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—Supposing the consolidated wet rate amounted to more than the water-rate, when you take all the factors that go up to make up the consolidated rate into account, would the water-rate in the temporarily-settled area be the same as the rate in the zamindari area?

The President. Q.—Actually the water-rate has not been altered for the last 50 years. The consolidated rate is being varied every 30 years, so that it cannot be the same.

A.—Yes; but the variation takes place on the land revenue side and not on the water-rate side, as the cost of the water has not altered materially.

Q.—The consolidated water-rate is theoretically half of the net return or the return of land *plus* water; and if this is increased, the share of the water increases as well as the share of the land.

A.—Theoretically it may be assumed so.

The Maharajadhiraja Bahadur of Burdwan. Q.—Apart from the theory, in actual practice do you find that the water-rate in the temporarily-settled area is the same as that in a zamindari area?

A.—Under the consolidated system, the demarcation between water-rate, pure and simple, and land revenue is somewhat ill-defined. It is difficult to split them up in some cases. The cost of water would be the same.

Q.—Supposing you had a channel where you only introduced the water-rate and you gave the benefit of that water-rate to your tenants in the temporarily-settled areas and in that area you find also there are tracts which are permanently settled and the zamindar or his tenant wanted water, would you make that water-rate uniform both for your temporarily-settled ryot as well as the zamindari ryot?

A.—Yes. Suppose you have a protective project, irrigating mainly the dry crop. If the ryot irrigates wet crop, he takes water in every season. In the case of dry irrigation the ryot will take the water only when there is necessity. In a good year he won't take the water, so that the return is varying. So the man who is afforded protection, i.e., a facility to take water when he wants, should pay something for the protection as an insurance fee.

Q.—In other words, the man for whom you really start these protective works should pay at a rate which is different from the rate which another man pays?

A.—No, that is not the point. Supposing a man chooses to make a contract to pay so much per year. Then he would pay less than a man who takes water only when required.

Q.—Supposing A says "I pay Rs. 50 for taking so much water and I will pay the amount whether I take the water or not." You say you would charge him at a lesser rate than the man who will take on demand?

A.—Yes.

Q.—But regarding the other principle, I take it that your idea would be that where an irrigation channel passes through a particular tract, whatever class of tenants take the water, the rate would be uniform.

A.—Personally, I would charge the same.

The President. Q.—There is a general agreement that the charge for water is too low, and a very general acceptance of the proposition that it is proper for the Government to take a share of the increased value of land resulting from a guaranteed supply of water newly given, preferably in the shape of a terminable annuity.

A.—Yes.

Q.—And how should that be taken?

A.—In the form of taxation; or I should give the option of compounding.

Q.—That would be terminable?

A.—I should encourage the payment of a capital sum.

Q.—In the case of protective works, it is generally inevitable that the State should not receive a full return. But there is no reason why a special class of cultivators should make profit at the expense of the general tax-payer, and therefore the rate should be kept as high as possible without discouraging the use of water; and you actually have some protective works that could pay more?

A.—By 'rate' you mean both the land revenue part and the water-rate?

Q.—The payment for water, in whatever shape it is.

A.—Yes.

Q.—In the case of productive works, the theoretical minimum charge is the cost of maintenance *plus* interest on capital cost?

A.—Yes.

Q.—And the theoretical maximum, the whole difference between the profit on an irrigated crop and that on an unirrigated crop. That is, the maximum that the State could take is the whole of the increased profit that a man gets on account of irrigation. Suppose a man is having a dry crop; you give him water and thus increase the produce. You let him take the same profit as before and you take the balance.

Sir Percy Thompson. Q.—May I give you an example? Supposing you have some dry land on which a profit of Rs. 100 can be made from growing dry crops. The Government puts water on it and you make a profit of Rs. 150 by growing a wet crop. The theoretical maximum is that the State can take the increase of Rs. 50 leaving him in the same position as before; so that he gets no benefit from the water and is not damnified from it.

A.—In those circumstances no one would take the water.

The President. Q.—The theoretical minimum is the minimum that does not damnify the State, and the theoretical maximum is that which would not damnify the cultivator.

A.—I would not like to subscribe to that myself.

Q.—Would you give us an alternative maximum?

A.—It is very difficult to fix it. Taking my own view that you charge the cost of water, the taxation element is fixed by the ordinary economic principle, viz., the requirements of the State and the taxable capacity of the people.

Q.—The theoretical maximum in the case of income-tax is what would leave the man enough for subsistence. But nobody has ever dreamt of taking that maximum.

Sir Percy Thompson. Q.—The theoretical minimum in the case of irrigation is that which would cover the cost of construction and maintenance and no more. The theoretical maximum is what I have stated.

A.—Yes; it may be the theoretical maximum you *could* take.

The President. Q.—If the land revenue were really equal to half the net produce, the plan of making a joint charge for land and water on settlement principles would afford an appropriate middle course?

A.—Yes.

Q.—But the increasing moderation of the land revenue settlement and the proposed limitation on increases makes it impossible to proceed on these lines since the increased yield would in some cases not even pay the cost of maintenance and interest on capital cost.

A.—Yes.

Q.—An alternative plan is to fix the charge for water for homogeneous areas at a rate determined with reference to the amount which the least favourably situated cultivator is ready and willing to pay.

A.—That is an alternative.

Q.—This would involve separating the charge for water from that for the land and making the former part of the cost of cultivation.

A.—Yes.

Q.—The land revenue would then be a proportion of the yield arrived at on settlement principles after deducting the cost of water in addition to the other cost of cultivation.

A.—Yes.

Q.—The rate so arrived at would vary with the reliability of the source and the nature of the crop grown.

A.—Yes; that fits in with what I have stated.

Q.—You accept this as a general summary of the discussion?

A.—Yes.

Sir Percy Thompson. Q.—You say that the charge for water for homogeneous areas should be fixed at a rate determined with reference to the amount which the least favourably situated cultivator is ready and willing to pay. But I thought what you would do is to fix it by reference to what it costs to the State to supply the water.

A.—I prefer that method.

The President. Q.—You have given us instances of the *reductio ad absurdum* at which you have arrived: that is, your most favourably situated areas are paying less water-rates, and as you go to the less favourably situated areas the cost of the supply is increased and you will have to charge more. As between different projects, your present situation is that the more it costs you to supply the water, the more you are going to charge?

A.—Yes. The more it costs, the more is the charge for water.

Q.—But the actual effect on the land is the same?

A.—Yes.

Q.—Practically your new areas are paying a much higher rate than the areas under the Godavari and Kistna?

A.—Yes, under the system of water-rate.

Q.—Do you think it is logical?

A.—That is why I want to make it up by taxation.

Q.—Would you carry that to the extreme? Take an extreme case of a piece of land that gets water by floods. How are you going to charge it? Are you going to charge nothing for it?

A.—Nothing as water-rate, but charge under the land revenue head.

Q.—Practically you would have a general scheme of taxation to which you would add the cost of the works?

A.—Yes, where the water is used.

Q.—May I go on to the hydro-electric schemes? You have a very big scheme in contemplation at present?

A.—Yes.

Q.—What is the plan by which it is proposed to work it? Is it purely as a Government undertaking, or do you give concession to a company or combine both?

A.—It is not yet settled. The present intention is to work it as a Government measure.

Q.—What do you think of the scheme in Sweden? There the capital invested is 1,020 million kroners and they get an yield of 57 millions against a debt charge of 23 millions.

A.—I apply exactly the same principles there. I would charge the cost of supply and look for a return to increased income-tax and other revenues resulting from increased prosperity.

Q.—How would you apply that, for instance, in Sweden where they have the monopoly of the whole undertaking right down to the supply to the householder? How are you going to divide the rate into the cost of supply and tax? Would it not be better to take a single rate?

A.—The case of the detailed supply to the consumer is not in contemplation at present. It is proposed to sell power in bulk.

Q.—If you take the cost of supply and tax separately, would not they both vary from year to year? The cost of maintenance may go up in one year.

A.—There might be a variation in the cost of running.

Q.—You would vary those two parts from year to year according to the circumstances?

A.—I would vary the rate for domestic supply, just as a gas company increases its rates when the cost of production of gas goes up.

Q.—But it does not split it up into the cost of producing the gas and the profit.

A.—But the variation would not be under the taxation head except by modification of taxation. Your variation would come under the cost of the commodity. Suppose the wages went up. Whatever taxation you levy, it would be based on your principles of taxation.

Dr. Paranjpye. Q.—Don't you apply this principle to post offices? If the cost of running the post office rises, you increase the postal rates.

A.—That is what I mean. You could have a slight margin of profit, not strictly speaking profits, but a margin to allow for fluctuations.

Dr. Hyder. Q.—You have read the note submitted by the United Provinces Chief Engineer, where it is said, the Government found themselves compelled to have a formula for basing their irrigation rates, that is, they would vary their irrigation rates from time to time according to prices.

A.—The prices of the crops would not affect the cost of water, because the cost of water is fixed.

The President. Q.—You would vary the tax portion with reference to prices?

A.—Yes, to a certain extent, but on a resettlement.

Mr. H. G. STOKES, C.I. E., I.C.S., Acting First Member, Board of Revenue, and Commissioner of Excise, Madras, was next examined.

Written memorandum of Mr. Stokes.

Q. 23.—I am only concerned with the question so far as it relates to liquor. I agree generally with the statement; but it must be noted that though liquor may, to a certain extent, be considered as a luxury for the

higher classes, it cannot be considered so in the case of the lower classes such as the coolie population. A moderate consumption of liquor is considered by them more as a necessity. The correct principle would be that drink should be so taxed as to minimize consumption and not entirely prevent it as such a step will inevitably lead to a large increase of illicit practices.

Q. 25.—So far as excise revenue is concerned, it is not possible to differentiate clearly between classes "who by religion or custom are prohibited from taking intoxicants" and others. Religious prohibition does not imply in practice entire abstention.

Q. 50.—To a certain extent such a graduation is possible in the case of imported liquor, the customs import tariff, for instance, classes champagne by itself for purposes of assessing duty. But the graduation can only be a rough one into broad grades of classes, because the 'value' of such articles as choice wines or liquors depends, to a great extent, in countries where the standard of living or of luxury is high enough to give rise to an appreciable demand on such imponderable factors as fashion or taste. In this country I question whether any useful purpose would be served by attempting a more particular graduation; the class which consumes these articles is very limited both in numbers and in wealth. So far as such articles subject to duty of excise are concerned, I do not consider that the conditions in this country are such as to render such a 'graduation' practical. No one, so far, has thought of laying down a cellar of 'choice old arrack' nor is there such a thing as 'vintage toddy.' The taxation is and can only be based (in the case of liquors other than toddy and beer) on the alcoholic strength.

Q. 61.—It would be a rash undertaking under present conditions to prophesy what may happen in the near future regarding prohibition or local option or any other public question. It may be admitted that among the 'intelligent' and political classes there exists an element which is *bona fide* devoted to temperance, and which advocates either total prohibition or a wide measure of local option as a preliminary step thereto; in alliance with this section of Indian opinion is to be found the missionary influence, which undoubtedly proceeds from sincere conviction. There has been a further, and probably a more numerous, section which adopts the cause of 'temperance' as a convenient ground of attack upon the Government and the Ministers with the ulterior object of embarrassing them by clamour and by attacking one of the principal sources of the revenues at their disposal. These tactics achieved in 1921 and 1922 a considerable measure of success; in 1921 the Government lost about Rs. 80 lakhs of revenue largely as the result of the anti-drink agitation, carried on for a time by the most lawless methods of intimidation both of renters or intending renters and of consumers of liquor. The attacks on the excise policy of the Government have proceeded, and to a great extent still proceed upon the ground of the growth of the revenue from liquor and ignore the fact that consumption under all or most of the heads has been either stationary or has exhibited of recent years a tendency to decline; they ignore also the fact that prohibition under existing conditions is not a matter of practical politics. I append on this aspect of the matter an extract of paragraphs 57 and 58 of my report on the Excise Administration for 1920-21, written in September of that year. In a note written about the same time I observed "I do not think that much is to be gained . . . from a discussion of the theoretical arguments on the subject; nor do I think that western experience is of paramount value as a guide . . ." The fact is that each country must work out the problem for itself. In this Presidency we are confronted with two cardinal facts: (1) that nature has provided almost in every field and village the means of indulging the desire for a alcoholic stimulant with the minimum of trouble; (2) that, possibly as the result of these conditions, the greater part of the population notwithstanding the precepts of religion do not abstain from alcohol. The statement that this habit was introduced by the British is one of those falsehoods which are the stock-in-trade of seditious agitators, and no candid critic will, I think, maintain it.

The point has been examined at length by the Bombay Excise Committee in Chapter II of their report, which abundantly establishes the falsity of the charge.

Given these conditions, it is surely obvious that what is needed is a change of conviction in the minds of the masses, and this can only come as the slow result of the spread of education and of habits of greater foresight

and thrift, assisted and stimulated no doubt by social work among the masses. Outside the efforts of mission societies and of temperance societies in a few of the larger towns, such effort has, I think, been on the whole conspicuously absent. The progress must inevitably be slow, but in proportion as it rests upon real conviction, it will be sure. When that conviction is shared by the majority or even by a large proportion of the classes affected, local option or even prohibition will be possible and will work. Without it, it is impossible, I consider, to expect success. On the contrary, an unwise reduction of the taxed and licit supply will merely impair the effect of the steady pressure of taxation operating to check consumption and the control which the Government at present can exercise. Under existing conditions, you cannot legislate people into abstinence by the votes of 5 per cent minorities, any more than in the long run you can bully them into abstinence by riding people on donkeys, by covering old women's faces with dung, or by the other methods of lawless intimidation which have characterised the recent 'temperance movement.' Even the imposition of caste penalties without real conviction will, as experience has shown, prove of only temporary effect.

During the three years that have elapsed since the above was written, the use of violent methods has subsided, though it has not entirely disappeared. In other respects the conditions are unchanged. The natural facilities for obtaining alcoholic stimulant are as widespread as ever and, broadly speaking, the propensity of the lower classes to indulge is not diminished. Nor is it now any easier than it was three years ago to suggest any system of prohibition or local option based upon the votes of the classes affected which will ensure that their real wishes are ascertained. These difficulties may, perhaps will, disappear with the social and political uplift of the masses. Under the existing conditions, I consider that prohibition would be impossible to enforce, and would be detrimental not only to the interests of Government but to the advancement of true temperance. It is satisfactory to note that there are signs that general opinion is tending towards a somewhat saner attitude, and is more disposed to contemplate what is practicable than what is ideally desirable. A recent temperance meeting in Madras was not content with passing Utopian resolutions, but actually appointed committees to evolve schemes for alternative sources of revenue; and in a recent full-dress debate on the excise policy of the Government the Legislative Council approved by an overwhelming majority the Ministerial policy of '*festina lente*'.

In Appendix II to the reply to this question is given a summary of the steps taken to discourage drinking and to limit temptation. Most of the measures taken directly with the object of promoting temperance or abstinence are in an experimental stage, and their results cannot yet be judged. As regards others—such as the reduction in the number of shops—it may be doubted whether the results have not been rather to stimulate excise crime than to promote abstinence: this result has followed analogous measures in other provinces and is one of those foreseen by most people who are familiar with the practical working of the *abkari* administration.

Q. 62.—I do not advocate total prohibition, and I have not considered possible alternative sources of revenue.

Q. 63 (*a*) and (*b*).—Accepted in principle.

(*c*).—I would accept the propositions here stated so far as intoxicants are concerned. To lay down, however, that the *only* important indirect taxes which should be retained are those on intoxicants or tobacco, is too sweeping. The question whether taxation should be direct or indirect has to be decided not merely with reference to theoretical considerations, but to the habits, ways of thought and preferences of the people taxed; in this country, for instance, direct taxation is largely resented; indirect taxation so long as it is not excessive is paid without difficulty.

(*d*).—Yes.

(*e*).—I believe so. It is for example a fact that, broadly speaking, the consumption of liquor (arrack and toddy) and consequently the revenue from vend rentals tends to such a degree to rise or fall in sympathy with the prosperity or adversity of the agricultural classes, that these fluctuations serve as a very fair index of the state of the season, present or prospective.

Q. 65.—So far as this Presidency is concerned, there are now practically only two rates of duty per proof gallon, viz., Rs. 10-10-0 in the Godavari, Kistna, Guntur, Nellore and Madras districts and the Saidapet taluk of the Chingleput district and Rs. 8-7-0 in the other areas. There are specially low rates in certain small areas owing to local conditions, viz., the Agency tracts of the Circars, and the enclaves in His Exalted Highness the Nizam's dominions and round the French territory of Pondicherry. In the agencies, the rate has to be low in order to make liquor available at a comparatively small price; else illicit distillation will become rampant. In the other two cases, the low price is due to the price of liquor being low in the surrounding or adjoining territory.

As regards uniformity of rate, the following table illustrates the position now and during the last about 12 years:—

Area districts.	Rate of duty per proof gallon.				
	1913–14.	1918–19 and 1919–20.	1920–21 and 1921–22.	1922–23 and 1923–24.	From 1st April 1925.
	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.
Ganjam, Vizagapatam ..	4 6 0	6 11 8	6 14 0	8 7 0	8 7 0
Godavari, Guntur, Kistna and Nellore.	5 10 0	8 1 3	8 7 0	10 10 0	10 10 0
Ceded districts	5 10 0	8 1 3	8 7 0	8 7 0	8 7 0
Madras Town Circle	8 2 0	10 12 4	10 10 0	10 10 0	11 2 3
Chittoor, North Arcot and Coimbatore.	6 14 0	8 1 3	8 7 0	8 7 0	8 7 0
Rest of Chingleput (excluding Saidapet taluk), South Arcot, Tanjore, Trichinopoly, Madura, Ramnad, Tinnevelly and the Nilgiris.	6 14 0	8 1 3	8 7 0	8 7 0	8 13 6
Malabar	4 6 0	8 1 3	8 7 0	8 7 0	8 7 0
South Kanara	4 6 0	6 11 8	8 7 0	8 7 0	8 7 0
Low duty areas.					
Managala and Lingagiri ..	1 14 0	3 5 10	3 7 0	5 0 0	5 0 0
Pondicherry frontier shops of South Arcot district.	2 8 0	3 12 0	*5 0 0	6 4 0	6 4 0

* Rs. 6-4-0 in 1921–22.

It will be noticed from the rates shown under 1922-23 above, that uniformity is being borne in mind. The larger number of rates shown in 1925-26 is due to the fact that the strength has been proposed to be reduced from 35° u.p. to 38° u.p. in nine districts and the issue price per bulk gallon has been fixed the same for 38° u.p. liquor as it is for 35° u.p. liquor; when the strength is gradually reduced in the other parts of the Presidency also, uniformity will again be reached.

It is practicable and perhaps desirable to reduce the variety of rates as it would prevent low duty liquor being smuggled into high duty areas, but I would strongly deprecate any laying down of a hard-and-fast rule on the subject. Local conditions have a considerable bearing on the question of fixing duty. The aim is to fix the duty at the highest possible figure short of stimulating illicit practices. Further, the nature of the country and the propensities of the population are not uniform. Many facts arise when the question of fixing duty is considered, and though uniformity is on general grounds desirable, I do not regard it as essential.

Q. 66.—I believe so. The figures of illicit distillation, etc., cases and toddy cases reported since 1913-14 are:—

Year.	I.D. cases.	Toddy cases.
1913-14	1,050	5,071
1914-15	1,197	4,983
1915-16	1,024	4,775
1916-17	1,190	4,416
1917-18	1,028	4,633
1918-19	1,595	4,741
1919-20	1,716	5,204
1920-21	1,408	5,191
1921-22	1,430	6,619
1922-23	2,001	6.623
1923-24	2,123	6,427

Other changes introduced during this period may also have contributed to an increase in crime (as to these see Appendix II to Q. 61), but increase in duty has probably contributed.

Country spirits.—The general rate of duty was Rs. 5-10-0 and Rs. 6-14-0 per proof gallon in 1913-14. This was raised by 10 annas in 1915-16 and 1917-18. In 1918-19, the general rate in the Presidency was raised to Rs. 8-1-3 and in 1920-21 to Rs. 8-7-0. In 1922-23 and 1923-24 the rate in four districts was further raised from Rs. 8-7-0 to Rs. 10-10-0 per proof gallon.

Tree-tax.—Taking the rate for cocoanut, it varied from Rs. 2-4-0 to Rs. 3-12-0 in 1913-14; from Rs. 3 to Rs. 3-12-0 in 1915-16; in 1918-19 the rate was raised to Rs. 4-8-0 in 18 districts, and in 1921-22 from Rs. 4-8-0 to Rs. 5-10-0 in four districts. The present rate is Rs. 3-12-0 in two districts; Rs. 4-8-0 in 18 districts and Rs. 5-10-0 in four districts.

Q. 67.—Till 1st April 1924, locally-made imitations of foreign liquor were taxed at the tariff rate. From that date the duty has been reduced to Rs. 17-8-0 per proof gallon, in order to enable it to compete successfully with the cheap varieties of German, Java, etc., foreign liquor. I consider that provinces should have freedom to levy any rate of duty they like on locally-made liquor as local circumstances require. Locally-made imitations of imported liquor do now enjoy the same freedom from restrictions as the imported articles, except in the case of cocoanut toddy arrack, which is specially so treated because it may otherwise compete with ordinary arrack.

Q. 68.—In theory, I see no objection to the levy of such duties. I believe now only the Bombay Government levy such a duty. I doubt, however, whether it would be expedient to do so in this Presidency. The tariff rate of Rs. 21-14-0 per proof gallon is already sufficiently high. The lowering of the rate of duty on locally-made foreign liquor has operated to check the consumption of the cheaper and more deleterious kinds of foreign liquor imported.

Q. 69.—The detailed arrangements have been recently under discussion with the Central Government. The following suggestions have been put forward by this department.

Following the principle that duty should follow consumption, the duty to be charged should be that in force in the province of consumption, and not that in force in the province of production. The following procedure has been suggested for recovering duty by the province of consumption:

(*a*) in the case of exports of locally-made foreign liquor excluding beer from a distillery or bonded warehouse in one province to a distillery or bonded warehouse in another province, there should be—

(1) A permit or pass in favour of the exporter or his agent, covering transport with a corresponding advice from the exporting warehouse officer to the warehouse officer of destination, sent direct, with a duplicate advice through the chief excise authorities of the respective provinces.

(2) A bond or security to be executed in favour of the chief excise authority of the province of destination by the exporter, for the safe conveyance and due delivery at destination, of the liquor exported, less any wastage which may be authorized; the bond to bind him to pay full duty with penalty (not exceeding twice the full duty) if adjudged, at the rates leviable in the province of origin or destination, whichever is higher. In

this case, if all is in order, the levy of duty is made in the province of destination on the liquor being cleared from bond; the rate of duty being that of the province of destination, which also collects the money; the bond is then cancelled.

(*b*) When liquor is sent from a bonded warehouse or distillery in one province to a licensed vendor in another, there should be—

(1) A permit or pass from the chief excise authority of the province of destination, in favour of the exporter. The exporter may prepay the duty in the province of destination to the chief excise authority. If he does, the fact will be certified on the permit, and no further payment of duty will be necessary at either end (except in the case of excess wastage). If he prefers, he may pay the duty at the rate prescribed in the province of destination to the chief excise authority of the province of origin. In this case the amount of duty so paid will be adjusted between the province of origin and the province of destination by book transfer.

(2) The exporter must also execute a bond as in the case of (*a*) (2) above.

(3) An advice must also be sent when the exporter removes the liquor to the bonded warehouse, or distillery of the province of origin to the authorities of the province of destination, which will verify the consignment on arrival and assess duty or penalty on excess wastage.

(*c*) When a vendor in one province sends liquor to a vendor in another province—

(1) The exporter will pay duty (if not already paid) on the quantity exported at the prevailing rate of the province of origin.

(2) He will obtain from the authorities of the province of destination a permit for the transport of the liquor on which the chief excise authority of the province of origin will endorse the fact that duty has been paid.

(3) The chief excise authority of the province of origin will, simultaneously with making the endorsement above, advise the chief excise authority of the province of destination that the export has been permitted and that the duty has been paid at the local rate.

(4) The exporter should execute a bond as stated in paragraph (*a*) (2) above in favour of the chief excise authority of the province of destination.

(5) The chief excise authority of the province of destination must arrange to verify the consignment on arrival and will levy differential rate of duty according to the rate in force in province of destination, if it is higher than that of the province of origin; he will also send a verification report to the chief excise authority of the province of origin.

(6) If the rate of duty in the province of origin is higher than that in the province of destination the chief excise authority of the province of origin will, on being satisfied that the consignment has reached destination, refund to exporter the difference between the duty levied on the quantity exported and the duty leviable on the quantity received at destination. The province of origin will then transfer in favour of the province of destination by periodical book adjustment the duty leviable on the quantity received in the province of destination at the rate fixed by the latter.

In the case of beer manufactured in this Presidency, the question of issue under bond does not arise as duty is levied on the quantity manufactured and not on the quantity issued and is collected once a quarter. The duty on beer exported to other provinces will be collected in this province and credited to the revenues of the province of destination once a quarter by book adjustment.

The simplest method of recovery of duty by the province of consumption from that of manufacture is by periodical adjustment by book transfer. In all such cases, the adjustment may be made quarterly.

Q. 70.—Taking merely the alcoholic content, toddy is more lightly taxed than beer. It would not be difficult to enhance the tree tax, but having regard to other considerations, it would probably be undesirable to do so.

Q. 71.—I consider that there is no *a priori* necessity to insist on assimilating rates of duty everywhere. Each province must fix its own rate of

duty based on consumption, on the habits of people and other local conditions. There are places in India where *charas* are consumed heavily. None is consumed in Madras. The rate of duty on *bhang* has been raised in Madras with effect from 1st April 1925 to Rs. 6 per seer.

Q. 72.—Arrack is manufactured in distilleries under the contract supply system. These suppliers also are required to establish wholesale depots at required places. Arrack is issued to retail shopkeepers from distilleries, warehouses or depots at rates fixed by Government. *Ganja* is cultivated by ryots and stored by them *in bond* at two centres, wherefrom it is issued to licensed shopkeepers on payment of duty at a price not exceeding a certain maximum fixed by Government. The system is working satisfactorily in the sense that it affords little chance of leakage of revenue.

Q.—73.—All shops for the retail vend of country spirits and *tari*, all *ganja* and opium shops and all beer shops and foreign liquor taverns (where consumption is allowed on the premises) are sold by auction. The other foreign liquor shops are licensed on fixed fees. In the case of these fixed fee licenses, the respectability and status of the persons applying for licenses are taken into consideration as also the trade conditions, i.e. (certain firms are sole agents for certain brands of liquor).

The system of disposal followed in this province is quite satisfactory from the point of view of taxation in the sense that it probably secures to Government the fullest share in the value of the privileges conferred.

Q. 74.—The figures in Annexure J, so far as this Presidency is concerned, comprise arrack and toddy shops under the outstill system. The closing of shops has been probably overdone in this Presidency, and the result has been that as there are fewer shops for competition the intrinsic value of shops has vastly increased. There is no doubt that the result of reducing the number of shops in this Presidency has had the result indicated in the question as the following figures show:—

Country spirits.

Area.	Year.	Number of shops.	Rentals per shop.	Consumption per shop.	Increase in 1922–23 compared with 1902–03.	
					Rentals.	Consumption.
			RS.	P. GLS.	PER CENT	PER CENT.
Madras City	1902–03	48	2,116	1,146	2,100	570
	1922–23	19	44,552	6,526		
Madras Presidency, including Madras City.	1902–03	10,014	161	101	700	275
	1922–23	5,917	1,140	278		
Madras Presidency, excluding Madras City.	1902–03	9,966	152	96	658	268
	1922–23	5,898	1,001	258		

Toddy.

Area.	Year.	Number of shops.	Average rentals per shop.	Average number of trees marked per shop in cocoanuts.	Increase in 1922–23 compared with 1902–03.	
					Rentals.	Trees marked.
			RS.		PER CENT	PER CENT.
Madras Presidency ..	1902–03	18,781	211	103	500	200
	1922–23	10,617	1,085	219		

The increase in rentals is out of all proportion to the increase in consumption, and the only possible inference is that the reduction in the number of shops has contributed to a considerable increase in the value of the shops that remain.

Q. 75.—It is not impossible to arrive at a uniform rate of duty in the case of opium. But I do not see that any great advantage will be gained. Local conditions always operate on the fixing of duty.

Q. 76.—The draft Opium Agreement recommends the course in the case of prepared opium. The shops in this Presidency are all for the sale of raw opium. The system mentioned is not in force in this Presidency. Shops are sold by auction. Government stock opium and issue to the licensed vendors on receipt of duty and cost price. The number of opium shops in the Presidency is 605 (1924-25) and their rentals are Rs. 10,19,787 (1924-25). The shops are only at important places where there is a real demand for opium. The working of these shops is very strictly supervised and the course of consumption in them is carefully watched. Whenever the consumption increases in a manner which indicates that the license is being used as a cover for illicit transactions, e.g., for smuggling, the shops is 'rationed,' i.e., the quantity of opium that may be issued to it is specially limited. The number of shops in respect of which a limitation has thus been imposed is comparatively small—7 in 1924-25. They are mostly situated in the sea-board (or adjacent) districts. To introduce a system of 'salaried' opium sellers would involve the abandonment of the existing renting system for opium shops and the conversion of these into Government retail shops. The revenue from rentals would be lost to the province unless the retail selling price of opium were so enhanced as to make good the loss. The direct association of Government with the retail sale of the drug would afford a ground of attack by temperance enthusiasts and those who desire to find fault with the Government. It has also been, in practice, found that the efficient control of a large number of petty shops scattered over the Presidency is a matter of great difficulty. The temptations to the 'salaried' sellers to falsify accounts and to cheat the Government would be overwhelming unless their salaries were fixed very high. The opium on sale would not, presumably, be duty paid and it would be impossible to guard it effectively in so many centres. It would be necessary to reduce the number of shops, i.e., centres of distribution to such an extent as to deprive large areas of supply of their legitimate needs. Such a system of State trading could not be carried on, on a paying basis; it would almost certainly result in a loss to Government and would offer no greater safeguards than the existing system.

Q. 77.—There is generally no smuggling of opium into this Presidency but there is reason to believe that a considerable amount of smuggling exists in sending opium to Burma, especially via Karikal. On account of the limitation in the quantity supplied to the shops in Burma and the heavy price charged there, it appears a profitable business to sumggle opium to Burma. In Burma, only non-Burmans and Burmans registered as opium consumers in 1893 are allowed opium. The number of cases of smuggling of opium to Burma from Madras Presidency detected during 1922-23 was 19 involving 208 seers of opium, that in 1923-24, 23 cases involving 162 seers and that in the current year, up to date, 4 involving 27 seers. Opium is also smuggled to Burma from the Indian States in this Presidency through Karikal.

With a view to check the activities of smugglers a small special force consisting of an inspector, an assistant inspector, four sub-inspectors and other clerical and menial establishment is maintained in the Presidency. This force watches the smugglers as closely as its numbers permit, and has been successful in detecting certain number of cases. But on account of the profitableness of the smuggling trade and the number of active smugglers, their success in suppressing the trade is restricted.

The transmission of opium by post is prohibited.

The import by sea of opium or intoxicating drugs other than those used for smoking is permitted only by licensed dealers in opium for medicinal purposes or by licensed chemists either direct or through their agents on payment of duty at the port of importation. The rules in force in this Presidency do not provide for cases of export by sea.

At present, opium cases are prosecuted by the police. This leads to a division of functions which has sometimes led to difficulty in dealing with opium crime.

A Bill to amend the Opium Act has been prepared and submitted to Government. Its main provisions are—

(*a*) conduct of prosecutions in opium cases by the officers of the Excise Department instead of by the police;

(*b*) a preliminary enquiry by the departmental officers so as to avoid prosecution of cases not proved;

(*c*) compounding by specified departmental officers of opium cases;

(*d*) infliction of enhanced punishments in the case of second and subsequent offences by the same accused;

(*e*) taking security from habitual offenders for refraining from such offences;

(*f*) making it penal to attempt to commit an offence relating to opium or intoxicating drugs; and

(*g*) bringing under control opium smoking.

The above provisions will, it is expected, tend to strengthen our hands against opium crime.

Q. 89.—The stamp duty does not, I believe, cover the cost of the maintenance of courts in this province. For the rest I see no reason why the stamps on judicial proceedings should be limited in the manner suggested. In this province, as elsewhere, people resort to courts of law on the flimsiest of grounds. It appears legitimate to taxability to pay as exhibited by resort to the law.

Q. 90.—The criticism, even if theoretically true, I think, be equally applied to many other taxes, income-tax for instance. I see no reason why it should apply solely or particularly to duties on deed of disposal or transfer of property nor do I see why the social utility of these transactions should be assumed.

Q. 91.—No such cases have come to my notice.

Q. 137.—At present, stamp duty is leviable only when probates, letters of administration or succession certificates are taken out. There is no compulsion to take out probate or letters of administration and in many cases property which passes to others by inheritance does not pay any tax at all. There seems to be no good reason why the majority of estates should escape such duty. I would agree with the view expressed in the question subject to a reservation that small estates of the value (say) of and below Rs. 1,000 may be exempt from death duty and that amounts left for public charities may also be exempt from such duty.

Q. 138.—At present the rate of probate duty is based on the value of the estate—

Of and below Rs. 1,000	Nil.
Above Rs. 1,000 but not exceeding Rs. 5,000	2 per cent.
Above Rs. 5,000	3 ,,

The tax may be graduated so as to vary with the value of the estate left. The other two methods suggested are impracticable. There are innumerable degrees of relationship among Indians and the number of legacies left are large.

Q. 139.—I should be disposed to accept the above general propositions. There would probably be great difficulty in devising and working a system of succession duties on a provincial basis. At the same time it would not be easy to define the principles upon which the distribution of the revenue between the Central and Provincial Governments should be made.

Q. 140.—I should be disposed to adopt an estate duty with a suitable graduated scale on the value of the estate similar to, but not identical with, that in the United Kingdom.

Q. 141.—I cannot pretend to the legal knowledge requisite to reply usefully to this question. So far as I can see, the method suggested at (*a*) would be equitable, the 'share' of the deceased being treated as an 'estate' for the purpose of assessing the 'value' and applying the rates fixed.

Q. 142.—The statement appears correct so far as large impartible estates are concerned.

Q. 143.—The statement is based on the supposition that the head of the family is the only earning member. This is not correct in many instances. The argument remains that property derived by succession is not 'earned' property and as such no insuperable objection ought to exist in such property contributing its share to the exchequer.

Q. 144.—In the case of probates and letters of administration, all the property the deceased left behind is included in the list of assets. If the law is that, on the death of a person, a schedule of property left behind should be filed and the responsibility for so filing a schedule is fixed by law on somebody, it should not be impossible to administer it. When the schedule of the property is filed, the valuation can be verified by the land revenue officers, as is now done in the case of probate applications.

Q. 145.—The Government of India, acting presumably, through the Central Board of Revenue as in the case of income-tax.

Q. 146.—In the case of probates, estates of value of Rs. 1,000 and below are exempt. Similarly estates of Rs. 1,000 and below may be exempt in the case of death duty also.

APPENDIX I.

Q. 61.—The policy pursued in the past and the measures laid down for giving effect to it have been successfully carried out in this Presidency. It has resulted in checking the consumption of country spirit and toddy and definitely decreasing the consumption of opium and hemp drugs. There is therefore no need to look with apprehension on the large increase in revenue, which has only increased the retail price of intoxicants and thus helped the cause of temperance by checking consumption better than any other method.

While this report is being written, keenly organized efforts are being made to prevent the sale of toddy shops for the ensuing lease by methods which, though ostensibly 'peaceful' amount in most cases to intimidation of most oppressive kind. The Board earnestly desires to bring one prominent fact to the notice of any genuine temperance reformer who may have allied himself temporarily with the non-co-operator in an agitation, which in its unscrupulous interference with individual liberty is surpassing anything experienced in the history of the much abused bureaucracy. This is that in South India the sources of illicit supply are far more accessible to the regular drinker than in any European country. If the shops are closed, liquor can be had from almost any palm with no more skill than is required to cut an incision or dress a spathe, and no more apparatus than a knife and a toddy pot. In a country where so large a proportion of the lower or labouring class are accustomed to the use of liquor, where every man can (so to speak) have his own beer tap in his own back garden and where the extensive topes which cover most of the countryside can immediately take the place of the elaborate breweries of Europe, it is futile to imagine that the closure of shops will have any permanently appreciable effect in stopping recourse to alcohol. If the policy in question were accepted and the shops remain closed, one of two results must follow: (i) drinking will go on unchecked and uncontrolled, liquor being obtainable at a tithe of its present cost, with a loss of Rs. 543 lakhs of revenue to Government; or (ii) the preventive establishment will have to be immensely increased, almost every village constantly patrolled and the agricultural and tapping classes would be subjected to the oppression of a host of petty officials, while the field for blackmail of private individuals and for the corruption of officials would be vastly expanded. Even so, it is unlikely that mere preventive activity could cope with the problem. The majority of the population would be either apathetic in actual sympathy with the drinkers and experience has amply shown that, under such conditions, mere preventive activity cannot be an adequate substitute for the provision of a reasonable licit and taxed supply. In the face of these considerations, the Board would urge those who desire to combat the evils of drunkenness by wholesale closure of shops to realize the shortsightedness of the policy they are following and to adopt the more radical, if less ostentatious, method of removing the desire for alcohol and not the sources of licit supplies.

APPENDIX II.

Q. 61 *continued.*—The policy of Government has always been to minimize temptation to those who do not drink and to discourage excess among those who do; and to the furtherance of this policy all considerations of revenue are subordinate. To further temperance and carry out the above policy, the following methods have been adopted:—

(*a*) suppression of illicit methods of all kinds;

(*b*) maintenance of the closest possible control and supervision over the liquor and drugs traffic;

(*c*) levy of as high a rate of duty as possible without unduly encouraging illicit methods;

(*d*) reduction in the number of retail shops for the sale of liquor and drugs and the strength of spirits;

(*e*) regulation and close supervision of the hours of sale, selection of sites and the general practices adopted in manufacture and vend; and

(*f*) consulting Advisory Committees and adopting their recommendations as far as possible.

These have tended to minimize consumption as is evidenced by the fact that the consumption of country spirits which stood at 4.4 proof gallons per 100 of population in 1913-14, and 4.9 proof gallons in 1919-20 was only 3.7 proof gallons in 1923-24, and there is a further fall of 5.6 per cent in consumption in the current year compared with 1923-24.

There has been a very drastic reduction in the number of shops as the following table will show:—

Year.	Number of shops.			
	Arrack *.	Toddy.	Opium.	Ganja.
1902-03	10,014	18,781	1,182	549
1906-07	10,239	18,684	1,121	636
1912-13	8,324	14,474	851	538
1917-18	6,619	11,399	650	413
1919-20	6,046	10,727	609	408
1922-23	5,917	10,610	609	417
1923-24	5,932	10,531	608	424

* Excluding shops under outstill system.

The issue strength of liquor was 20° u.p. prior to 1910-11 in some districts and 30° u.p. in others. Reduction was gradually made and it is now 38° u.p. in nine districts.

The limit of private possession has been reduced from 8 drams to 6 drams in the case of country spirits with effect from 1st April 1925. The closing hour of shops has been reduced to 8 p.m.

The opinions of Advisory Committees are respected and accepted whenever they are consistent with the general principles laid down.

As a temperance measure, other experiments are also under trial.

In the Atur taluk of the Salem district, the Shiyali and Tiruturaipundi taluks of the Tanjore district, the Tiruvadanai taluk of the Ramnad district and the Tenkasi taluk of the Tinnevelly district, all shops for the vend of country spirits numbering 67 with an annual rental of about Rs. 56,000 have been closed as an experimental measure from 1st April 1924. These areas are mainly toddy or *tari* consuming areas, and as toddy is a comparatively harmless beverage, the experiment is with a view to see what the effect of the closure of arrack shops in these areas will be.

With a view to ameliorate the condition of the Badagas and other hill tribes on the Nilgiris, the sale of liquor to any member of the hill tribes is prohibited on the Nilgiris with effect from 1st April 1925 except on a medical certificate signed by a registered medical practitioner.

It must, however, be noted that these undue restrictions are stimulating crime to a certain extent. The number of reported cases against the Abkari Laws during the last few years is shown below:—

Year.	Number of cases reported.	
	I.D. and kindred offences.	Toddy offences.
1913-14	1,050	5,071
1914-15	1,197	4,983
1915-16	1,024	4,775
1916-17	1,190	4,416
1917-18	1,028	4,633
1918-19	1,595	4,741
1919-20	1,716	5,204
1920-21	1,408	5,191
1921-22	1,430	6,619
1922-23	2,001	6,623
1923-24	2,123	6,427

At present there is one Licensing Board for the City of Madras and Advisory Committees for mofussil municipalities and major unions. The former has very full powers in regard to the number and location of shops, and its decision are only subject to veto by the Commissioner. In the case of Advisory Committees their recommendations to the Collector are advisory, but Collectors always give deep consideration to their recommendations. Proposals are now before Government for constituting Licensing Boards for municipalities in the Presidency with a population of over 50,000 and Advisory Committees for other taluk board areas. These bodies will under the proposals, have a non-official majority and will have power to elect their own chairman. The rules framed provide for these bodies to publish a list of shops proposed to be sold and call for objections, if any, and consider them.

Mr. Stokes gave oral evidence as follows:—

The President. Q.—You are the Commissioner of Excise?

A.—Yes.

Q.—You are also the Commissioner of Stamps?

A.—Well, I am the Member of the Board of Revenue in charge of stamps.

Q.—You have nothing to do with court-fees?

A.—It is only nominal.

Q.—You have sent us two notes, one on excise and one on stamps?

A.—Yes.

Q.—I would like to take you straight away to Q. 61. You say "There has been a further and probably a more numerous section which adopts the cause of 'temperance' as a convenient ground of attack upon the Government and the Ministers with the ulterior object of embarrassing them by clamour and by attacking one of the principal sources of the revenues at their disposal." Could you give us any instance of speeches made by public men or speeches made in the Council?

A.—Well, what I had in mind is this. There was recently a full-dress debate on the subject in the Council, and from the tenor of the speeches made it seemed to me that they were adopting a more reasonable and less doctrinaire attitude and the whole debate resulted in a very marked victory for the Minister. The Minister's policy is defined in the debate.

Q.—Is it not dependent on the report of the Excise Committee?

A.—No. The report of the Excise Committee has not yet been finally adopted.

Q.—I think there was some discussion about rationing. Do you think it is possible?

A.—I think it is quite practicable, and could be tried. But it is doubtful if it would be of much use.

Q.—If you reduce the ration, don't you think that certain people may have to go without drink entirely?

A.—I think, as in Bombay, it will probably result in the shopkeeper becoming the ally of the illicit distiller.

Dr. Paranjpye. Q.—Have you heard the statement made in the Bombay Excise Committee Report?

A.—I think it was made somewhere by the Excise Commissioner. He says that shopkeepers are allying themselves with the illicit distillers.

Q.—In Bombay there is no limit of price, consequently they can make profits.

A.—That is perhaps the case.

Q.—Have you examined the figures given in the Bombay Excise Report? Cases of illicit distillation do not depend on whether the ration was reached or not.

A.—I have not examined the Bombay report in detail and so I cannot say anything about that.

Q.—I mean illicit distillation was found even in places where ration was not reached.

A.—It may be. The shopkeeper found it to his interest to sell more.

Q.—Even under your system he would do so?

A.—Not so much. I think the policy of rationing is to be condemned on that basis.

The President. Q.—In the case of rationing, the shopkeeper will have no limitation on prices or in the alternative there would be a limit in which case the consumer would pay an increased price for a highly watered article.

A.—Then the consumption would decrease. I think in Bombay they have no control.

Q.—Is not your view that rationing would rather stimulate excise crimes?

A.—Certainly. The figures of actual detection probably represent a small percentage of the actual existing crimes. I have given the figures somewhere. You will please see the figures at the end of my memorandum. The figures given refer to actual I.D. major offences.

Q.—There has been a 50 per cent increase during the last two years?

A.—Yes.

Q.—Have you studied the Bengal surcharge system?

A.—I have not studied that system.

Q.—As regards the rates of duty, you are working towards uniformity?

A.—Yes. In the majority of the districts the rates are more or less the same, and we are gradually aiming at levelling them up.

Q.—In answer to Q. 67, you consider "that provinces should have freedom to levy any rate of duty they like on locally-made liquor as local circumstances require". Is that not a complete departure from the old policy?

A.—I have said that the locally-made imitations of imported liquor do now enjoy the same freedom from restriction.

Q.—But the policy of the Excise Committee which sat in 1906 and which the Government of India adopted was that you should have the tariff rate on everything except arrack. But now the policy is to let the Provincial Government levy whatever they like on the locally-made foreign liquor?

A.—Yes.

Q.—Would you require any passes for transport?

A.—Yes. I think some such thing is necessary. I have given the detailed proposal in answer to Q. 69.

Q.—Then you will introduce a fairly complicated system of control; is it worth while?

A.—I think the principle of provincial autonomy is to allow provinces a free hand. To say whether it is worth while, one would have to wait and see how the system works.

Q.—Would it not lead to complications between the various provinces?

A.—As far as I can see it may give rise to certain difficulties.

Q.—One of the previous difficulties was that Bombay would not admit the Madras liquor. It was illegal even to take a bottle of beer across the frontier in a railway carriage.

A.—But I don't think these difficulties are insuperable.

Q.—We heard in Calcutta that the Calcutta dealers have to pay a certain duty as vend fee per bottle on liquor sold in Bengal and they have issued one price list for other provinces and another for Calcutta. Is it not exceedingly probable that if it is carried too far that the liquor would be taken just across the border and then smuggled back?

A.—There is the possibility. But if the provinces work together, I do not think there will be any difficulty.

Q.—Is there any possibility of the provinces working together?

A.—I don't see why they should not.

Q.—You know the conditions which led to the arrangements of 1923. The Punjab refused to allow any *charas* to leave the province unless it paid a transit duty to the Punjab.

A.—Don't you think that they are now reasonable?

Q.—The mutual agreements are very much on the old arrangements. If you once beg n imposing a varying set of duties, there will be trouble.

A.—I do not think the difficulties are insuperable.

Sir Percy Thompson. Q.—You practically forbid country spirit going from one province to another?

A.—It can be sent in bond.

Q.—Why should not the same thing be adopted for foreign liquor?

A.—Quite possible.

The President. Q.—Then every time you get a bottle of whisky you would have to take a pass?

A.—Yes.

Q.—You began with your statement that the locally-made imitations do now enjoy the same freedom from restrictions as the imported articles.

A.—I think if it is a case of a private consumer, you can leave him a considerable degree of freedom. But in the case of a dealer sending considerable quantities from one province to another, you could have a system of something like transporting in bond as in the case of arrack.

Q.—Will it not come to this; supposing a man wants a dozen bottles of whisky from Calcutta he will have to pay 8 annas more, but he would not have to pay in his own province?

A.—Then, you might get your liquor little cheaper.

Q.—That sort of situation has arisen since 1923.

A.—I quite understand the difficulties you enumerate, but I do not think they are insuperable assuming the provinces are working amicably with one another. How are you going to levy this uniform rate?

Q.—By agreement between the provinces.

A.—I think you are interfering with the autonomy of the provinces.

Q.—It is rather the function of the Government of India to look after inter-provincial trade.

A.—I do not think they will do it.

Q.—It is so in all the Federal Governments; that is part of the American constitution.

A.—Possibly, I am not familiar with the American constitution.

Sir Percy Thompson. Q.—Is there free movement of the locally-made stuff between the provinces?

A.—I think there is.

Q.—Suppose it moves from Calcutta to Madras, Calcutta charges the duty?

A.—I suppose Calcutta charges a surcharge on the bottle.

Q.—I do not think they charge the tariff rate.

A.—There is an import tariff rate on foreign liquor imported by sea.

Q.—Is there not a common rate for the locally-made stuff?

A.—No.

The President. Q.—If I may explain, it is in this way. When the 1906 Committee reported, it was arranged for and all the provinces agreed to the tariff rate. It was said that they should start upon the warehouse system and induce the manufacturers to send in their stuff into the warehouses. Now they are going back on that policy—going back to the varying rates. If you have varying rates, province A gets liquors from province B, and the province A's rate is lower than the province B's rate. Therefore you will have to make some arrangements for that.

Then there is the reverse case of adding a duty on the imported stuff. You see no objection to that either?

A.—You mean adding a provincial duty on to it. You mean on the stuff coming from outside, as a supplementary import duty. The Government of India would have to agree to it.

Q.—Bengal and Bombay are now doing it.

A.—I should, say, barring the difficulty that it would mean still further raising the high tariff rate on the whisky which you have now, I do not see any theoretical objection to it.

Dr. Paranjpye. Q.—Have you examined the food value of toddy?

A.—I cannot tell you exactly, but I believe it is always supposed to have a food value. That is why it is supposed to be less harmful than arrack.

The President. Q.—But it has the food value only when it is comparatively fresh.

A.—Yes.

Dr. Hyder. Q.—The existence of the tree is the cardinal fact of your excise administration.

A.—Yes.

Q.—Suppose you had a policy of prohibition, why can't you control it?

A.—Because it would mean an enormous increase of work and an increase of our excise staff.

Dr. Paranjpye. Q.—What proportion of the trees are allowed to be used for this purpose?

A.—I have not the slightest idea.

Q.—What is your impression?

A.—I cannot possibly tell you.

Dr. Hyder. Q.—The person draws toddy from the trees which are marked and has to pay taxes for it. So you can be more or less certain that no *tari* has been drawn if a tree is not marked?

A.—I am rather less certain than more.

Q.—As Excise Commissioner, you are not certain that out of 100 *tari* trees there may be only five or ten trees from which people may be drawing licit *tari*?

A.—I cannot tell you straightaway the proportion of that kind.

Q.—It has been put to us by some witnesses in Madras that if the tree is used for drawing *tari*, it will not bear cocoanuts. So you could tell at once and would not have to trouble your excise staff.

A.—You cannot possibly tell at once, and you would lose much revenue meanwhile.

Dr. Paranjpye. Q.—Supposing you at present tap one tree out of every ten for toddy, your excise preventive staff have to see that the remaining nine are not tapped for toddy?

A.—They are supposed to.

Q.—Consequently, if trees were absolutely prevented from being tapped, all you will have to do is to see that the staff look after ten trees out of ten instead of nine out of ten, so that their work will not be very much increased.

A.—It is not a question of looking after one tree or ten trees, but of millions: it would be a rather more difficult problem.

The President. Q.—How many trees are marked?

A.—The number marked in terms of cocoanuts in 1923-24 was 2,248,000 or 2¼ millions.

Q.—In terms of palmyras, dates, etc., it is something much bigger?

A.—Yes.

Sir Percy Thompson. Q.—Even assuming that the number tapped was one in 50, would not the looking after 50 give you very much more trouble than looking after 49 when you have one in 50 already tapped?

A.—Yes, the incentive to illicit tapping would be enormous if it was entirely prohibited.

Dr. Hyder. Q.—Your difficulty would chiefly be in rural areas and out-of-the-way villages. Does every inhabitant of a village in the Madras Presidency drink?

A.—No.

Q.—There would be classes who would provide a very efficient check on those who misuse the trees.

A.—I have stated in my written notes that, if you get a state of public opinion in which people who do not drink regard it as their duty to bring to book those who do, you can work prohibition.

Q.—In your villages, do non-drinking people show any inclination to stop illicit practices?

A.—Very little. They are not prepared to trouble themselves to give information to the public authorities and to give evidence in courts and thus incur unpopularity.

Q.—The unpopularity would not be very great, because the people who drink are chiefly the lower classes. I don't think the zamindars have any fear in this matter.

A.—I think they have undoubtedly.

The President. Q.—Is it your experience that you ever get any help from the private individual?

A.—You don't unless there is some other reason for his giving it. In any case, he does not want to have trouble. If there was an active sentiment in the matter, then things would be very much easier.

Dr. Hyder. Q.—This policy of prohibition was tried in this country at a time when the efficiency of the central and provincial administration was nothing as compared with their present efficiency. I shall read to you an extract from Moreland's book, which relates to the period from Akbar to Aurangzeb. An English traveller, Peter Mundy, writing in his journal for 1632, refers to the "heavy penalties on distillation or sale of spirits. Near Allahabad supplies could be obtained from stills, but further east, none could be had for any money, there being a State prohibition with death to the party with whom supplies were found."

A.—It might be possible that there was a strong sentiment in limited areas, but there is also evidence of the prevalence of drunkenness in those days.

The President. Q.—May I read to you another extract from a Muhammadan history? Ziauddin Barni says:—

"Drunkards were driven out of the city into the country and the enormous taxes which the State had derived from the sale of liquor and drugs (and from gambling) had to be struck off the revenue books. The

Sultan gave the order to remove from the palace all decanters, glasses and bottles. The bottles of wine were also taken from the assembly rooms in the palace and poured out, and the quantity of wine thus thrown away was so great that pools and puddles were formed as in the rainy season. The Sultan Alauddin also discontinued his drinking parties and he told the Maliks to proclaim that it was his order that no one should drink or sell wine or have anything to do with wine. Distillation, however, continued and wine was smuggled into the city of Delhi in leather receptacles hidden in bundles of grass. Guards were therefore posted at the gates to examine everyone entering and smugglers were seized, beaten, fettered and thrown into prison or into wells, but still people went into villages at a safe distance to drink and some were so daring as to continue to distil in their own houses in the city itself."

Dr. Hyder. Q.—They were enforcing a policy of prohibition and I must say that in those days, chiefly the people living in the palace were the greatest consumers. There was not a Muhammadan Emperor who did not drink except Aurangzeb, but that does not show that the whole country was full of liquor.

A.—It was, I think, full of toddy.

The President. Q.—The extract goes on to say:

"This early and whole-hearted attempt at prohibition in spite of 'sanctions' had finally to be abandoned, for the Sultan gave orders that if any one distilled spirits privately and drank the liquor in seclusion without having a party or assembly and without selling it, the spies were not to interfere with him, nor enter his house nor apprehend him."

You actually have been making some experiments on prohibition in this province?

A.—Yes, in arrack. In certain taluks they have removed all the arrack shops.

Q.—You have no liquor shops in the Agency tracts?

A.—No. A certain amount of free distillation is allowed there. We have gone further than that in the last year or two: we have withdrawn, for example, all the arrack shops in the Tenkasi taluk in Tinnevelly district and in some other areas.

Q.—Haven't you got a prohibition of sale to the hill tribes in the Nilgiris?

A.—Yes.

Dr. Hyder. Q.—Is toddy also prohibited?

A.—There exists no toddy in the hills. The sale of liquor to the hill tribes is prohibited.

Q.—Has this experiment been successful?

A.—It is rather too soon to say what the effect is, as this is only the second year the experiment has been in force.

The President. Q.—Not long ago, you prohibited the location of all toddy in the Salem municipality?

A.—Yes, the shops were removed out of the municipality. The only result of that was that the shops all round the municipality sold correspondingly more.

Q.—So there is no unwillingness on the part of Government to experiment with prohibition wherever they think there is a chance of success?

A.—That is so.

Q.—Meanwhile there has been an enormous closing down of licenses for shops?

A.—Yes.

Q.—You say that "the increase in rentals is out of all proportion to the increase in consumption and the only possible inference is that the reduction in the number of shops has contributed to a considerable increase in the value of the shops that remain"?

A.—I have given some figures about that in answer to Q. 74. The average rental per shop in Madras has risen since 1902 by 2,100 per cent.

Q.—You show that the duties on *ganja* and opium are practically uniformly levied. Is it not desirable to get a basis of uniformity for the whole country?

A.—I should not think there is any very great objection to it. We do co-operate in Madras with the neighbouring provinces in the matter. We raised our duty on opium to something corresponding to that of the neighbouring provinces.

Q.—In the case of opium, you would not like to give up the auction system, because it brings you a large revenue, but there is quite a considerable amount of duty-paid opium going to Burma.

A.—Yes.

Q.—You deal with that by rationing?

A.—Yes. If a shopkeeper is found selling a suspiciously large amount, we have power to say that he should sell only so much per month.

Q.—Is it not open to the same objection as rationing of liquor?

A.—I don't think we ration more than half a dozen or ten shops.

Q.—Supposing that continues, the smuggler will pay the shopkeeper a high price for the small amount he gets and the legitimate consumer will get none.

A.—He might do so, but the consumption of opium is not so common. The consumers of opium are quite few as compared with the consumers of arrack.

Q.—Do you also find a considerable amount of adulteration and tampering with the cake with a view to smuggling?

A.—I don't think we have had many cases of that kind. We have had one or two cases in which bogus cakes were found. I think it was a trick of the smuggler or the informer.

Q.—Were they cakes of opium?

A.—Information was given that opium was going through. I can recollect one instance in which, when it was seized, it was found to be cow-dung with a tincture of opium.

Q.—In Burma, Assam and other provinces we have been told that the shopkeeper is made to cut up his cake into pills, each having the weight of a two-anna piece, wrap those up in paper and keep them for issue to the consumer and it has been suggested that instead of each individual shopkeeper doing that, you can have them put through a pill-making machine in the factory and issued in sealed bottles of pills. One advantage of this is that the consumer would be sure that he gets what he pays for, and the other advantage is to defeat the tampering with, and adulterating of, the cake.

A.—I have not come across any cases of complaint against shopkeepers for issuing adulterated opium. There have been cases in which shopkeepers complained that the opium issued from the taluk treasuries for their use was deteriorated.

Q.—Would you object to trying this system if the factory undertook to make the pills?

A.—I don't think I would: but I do not know if it would serve any useful purpose. I think it would be more expensive to put it on the market.

Q.—You have given us a very interesting note on the Bill to amend the Opium Act.

A.—We have had a reference from Government about it recently.

Q.—Is it a provincial Bill to amend the Imperial Act?

A.—Proposals were sent to the Government of India to amend the Imperial Act. One of the difficulties in working the present Act is that the police are in charge of cases under the Act. We wanted to bring it more or less into line with the treatment of other *abkari* cases.

Q.—To turn to your appendices, you say that there is a reduction in the consumption of arrack as compared with 1913-14. From 4.4 proof gallons in 1913-14 the consumption fell to 3.7 proof gallons in 1923-24 per hundred of the population.

A.—Yes.

Q.—Has your attention been called to the enclosures to the last Central Provinces report?

A.—Not officially.

Q.—That report shows Madras as having a decrease of nine per cent.

A.—It comes to about that. I should think that the figures are fairly accurate.

Q.—You have nothing like the decrease in the Punjab and the Central Provinces?

A.—No. The Punjab have been going ahead rather faster than they should have done in the matter of raising prices.

Q.—They admit there is a very large rise in illicit consumption.

A.—Yes.

Q.—May I turn to your report for last year? You say that the reason for a fall in consumption was that *Vetapalem ganja* was mainly issued and this *ganja* was reported to be not of good quality. Are you giving up that particular class?

A.—No. Government decided to try the method of taking over the entire crop from the growers. It was found very difficult to make the growers look to the quality of the stuff. In 1920-21 and 1921-22 they started the plan and the result was that we had to take over a very large quantity of very inferior *ganja* which we have since been trying to get rid of to the detriment of our revenue.

Q.—It must be too old.

A.—I am proposing to burn about Rs. 20,000 worth of it. The stuff is not really fit for consumption.

Q.—You tried a State monopoly and that failed?

A.—We have now gone back to the old system of the ryot cultivator taking it to the middleman who is not allowed to charge more than a certain price to the retail shopkeeper.

Q.—You are up against the old middleman difficulty?

A.—It has not yet cropped up.

Q.—You say that some "*sonti soru*" liquor seized by the Inspector of the Madras Town Circle was found to contain 23 per cent of proof spirit. Has there been any increase of that?

A.—I think the closure of toddy shops in Madras has stimulated the manufacture of this liquor. It is made of rice in Madras.

Dr. Hyder. Q.—Is there a good deal of smuggling of opium taking place into Burma from the Madras Presidency?

A.—I think a good deal of it is from India: I don't know if it is from the Madras Presidency.

Q.—Does a good deal of smuggling take place from Karikal?

A.—Yes. It is the work of smugglers in the interior who have agents in Karikal.

Q.—Do they buy the opium from the Government factory at Ghazipur?

A.—They buy it from shops.

Q.—Does any of this opium go to the Straits?

A.—I am not sure of it: I think most of it goes to Burma.

The President. Q.—A good deal of *ganja* goes to Ceylon?

A.—Yes.

Q.—And to Burma?

A.—Possibly: but it pays them to pay the duty and yet smuggle. I suppose that the price they get in Burma is so high that they can afford to do it.

Sir Percy Thompson. Q.—You have the system of tree-tax for toddy here?

A.—Yes.

Q.—On the whole, has it been very successful?

A.—Yes, it is bringing a big revenue.

Q.—Elsewhere it has not been successful. Do you know of any special conditions in Madras which make it possible to collect the tree-tax satisfactorily that do not exist in other provinces?

A.—I think the principal reason is that this Government took it up in earnest and for many years they were ruthless in their administration of the *abkari* laws.

Q.—You have a larger number of officers who can control it locally as compared with other provinces?

A.—I should not think so.

The President. Q.—You had 10,000 *abkari* officers and you prosecuted 30,000 cases here.

A.—Yes.

Sir Percy Thompson. Q.—If Government chose to take it up ruthlessly in other provinces, there is no reason why they should not succeed.

A.—I do not like to say that. You cannot enforce that sort of thing in the Punjab and the United Provinces with the same ease with which you could do it in Madras. Possibly it has something to do with the temperament of the people.

Dr. Hyder. Q.—Now you do not have anything like 10,000 men?

A.—I think the number at present is about 3,000.

Q.—Did you dismiss 7,000 men?

A.—The number has been reduced. The tree-tax system was begun about 1884 and gradually we extended the system to groups of districts, with the result that nine-tenths of the Presidency is under the tree-tax system now.

Q.—Have you looked into the possibility of raising the same amount of revenue (if you prohibited the tapping of trees) by way of a cocoanut tax?

A.—It would not cover the ground, because a great deal of the toddy which is taxed is not from cocoanuts at all. The Deccan districts mostly get their toddy from the date, and four-fifths of these dates are wild.

Q.—Is a large quantity of toddy drawn from the date palm?

A.—Yes.

Dr. Paranjpye. Q.—From the palmyra?

A.—It is more in the southern districts.

Dr. Hyder. Q.—Does the cocoanut palm tree preponderate in this Presidency, or the date and palmyra?

A.—I could give you the figures if I had them. It is a matter of the locality more than anything else. On the West Coast, the cocoanut preponderates very much.

Q.—What have you in districts adjoining the Nizam's dominions?

A.—There we have some cocoanuts and some palmyras, but, generally speaking, the toddy is made from dates: when you get to the central districts round about Madras, cocoanut is the principal thing.

The President. Q.—Your administration report shows that the actual number of trees tapped were 1,188,985 cocoanuts, 759,775 palmyras and 916,474 dates?

A.—Yes: the figures I gave you, viz., 2¼ millions, are in terms of cocoanuts.

Sir Percy Thompson. Q.—On what date was the tree-tax system inaugurated in Madras?

A.—I think it was about 1884.

Q.—Is it not an imported system?

A.—It was originally adopted from Bombay and improved. I think the tree-tax system was first in existence in Bombay. My father introduced it with improvements and modifications.

The President. Q.—Supposing you were to try and levy this 2½ crores of revenue on the trees, tapped or untapped, would the landholder pay it?

A.—I suppose the tree-owner would pay it.

Dr. Hyder. Q.—He would recoup himself by selling cocoanuts to people who consume cocoanut oil and others: probably the foreigners would have to pay a part if they care to have the cocoanuts.

A.—Yes, but I think there would be strong objection on the part of the cultivator.

Q.—The suggestion that is put forward is this: that if the Government prohibit the tapping of trees, it could raise, though not the entire amount of revenue, but certainly a large portion of the revenue, by putting some tax on the use of cocoanuts in the country.

A.—If the man has 20 trees, he allows one or two to be tapped. He gets his return from them and he has not to pay anything on the remaining 18 trees. Your proposal is that he should pay something on the whole twenty.

The President. Q.—Would not the proposal also involve the taxing of a number of people who never let their trees for tapping?

A.—Yes. On the West Coast, the number of trees used for tapping toddy is very small compared to the number of trees in existence.

Dr. Hyder. Q.—Then there is no difficulty really for the Government of this Presidency to embark upon a policy of prohibition. If the cocoanut trees are chiefly put to the cocoanut use in the West Coast, then there is not much difficulty about illicit tapping of trees there.

A.—I only say that the number of trees used for the purpose of tapping toddy is comparatively small. There are plenty of illicit tapping cases on the West Coast.

The President. Q.—Actually the West Coast contributes 2,002 such cases out of 6,623?

A.—Yes.

Sir Percy Thompson. Q.—Have you any idea of the value of the crop from the cocoanut trees?

A.—I am afraid I cannot tell you.

Q.—What would be the relation between this value and the tax?

A.—I cannot say that.

Dr. Hyder. Q.—That 2½ crores is not entirely to be ascribed to the toddy?.

The President. Yes; it comes from it.

Dr. Paranjpye. Q.—Have you got here *mahua* trees?

A.—Yes.

Q.—Are they used for illicit distillation of liquor?

A.—Yes, though we do not suffer from it to the same extent as the Central Provinces or Bombay does. In the Agency and some other tracts there is a good deal of *mahua* grown.

The President. Q.—With regard to court-fees, you say "It appears legitimate to tax ability to pay as exhibited by resort to the law".

A.—Yes.

Dr. Paranjpye. Q.—Would you increase the number of cases dealt with by courts *in forma pauperis*?

A.—There is a great difficulty, I admit. No doubt, you should not deny justice to the poor man.

Q.—You think that the court may give him an opportunity?

A.—I think there should be some means of giving relief to him.

Dr. Paranjpye. Q.—Would you increase the number of cases dealt with enquiries into applications of this sort?

A.—I do not think the system is completely satisfactory. It is very difficult to get at the real facts in this country.

Q.—You think many are not real paupers?

A.—I do not remember about that. But there is a lot of hanky-panky about it.

Dr. Hyder. Q.—Your panchayats and village courts are taking a certain number of cases?

A.—Yes; I do not remember what the powers of the village courts are.

Q.—A large majority of cases will be settled in those courts if they are given sufficient powers.

A.—I would not like to say what would be the effect. But at present the jurisdiction of those courts is limited.

Q.—If they function well, with lapse of time you can increase the powers of these village courts so as to reduce the excessive litigation in the higher courts.

A.—That is the idea; but the trouble is whether they have been functioning well.

Q.—How long have they been in operation?

A.—There have been village courts for quite a long time—at least for 20 years or more. But within the last few years they have passed the new Act and revised powers have been given to them. Generally speaking, I doubt if these courts are any improvement on the old ones.

Q.—You think that the poor people and the low class of people do not get justice at the hands of these courts?

A.—I do not say that; but they often think they do not.

Dr. Paranjpye. Q.—Have you ever heard complaints that the poor man finds it very difficult to get justice when the other party is a rich man?

A.—Yes, frequently; but that is not peculiar to India alone.

The President. Q.—You say "There is no compulsion to take out probate or letters of administration"?

A.—I do not think there is. What I mean is that a man can pass on the property without taking the probate.

Q.—He must, if he is a Christian or Jew or a Parsee and so on.

A.—I think there is a good deal of property passing without the probate being taken out.

Q.—Could you give us your experience, as a Member of the Board, of the operation of section 19(*c*) of the Court-fees Act? The difficulty is that it makes the penalty compulsory. The Act does not allow the Board any option.

A.—I do not remember any cases recently.

Q.—Perhaps Mr. Muthuswami Ayyar* will be able to say something on the point.

Mr. Muthuswami Ayyar. A.—We do not levy many penalties nowadays.

Q.—The difficulty is that the Board has no option.

A.—It has option. It can remit the whole penalty.

Q.—Under what section?

A.—Under the proviso to section 19(*c*). We were levying them some time back; but now we do not get many cases. The proviso to the section says: "Provided that, if the application be made within six months after the ascertainment of the true value of the estate and the discovery that too low a court-fee was at first paid on the probate or letters, and if the said authority is satisfied that such fee was paid in consequence of a mistake or of its not being known at the time that some particular part of the estate belonged to the deceased, and without any intention of fraud or to delay the payment of the proper court-fee, the said authority may remit the said penalty, and cause the probate or letters to be duly stamped on payment only of the sum wanting to make up the fee which should have been at first paid thereon."

Q.—If the party values a piece of land at Rs. 1,000 and the Collector thinks it is worth Rs. 5,000, then a penalty can be imposed.

The witness. A.—I remember having remitted a good number of cases where it has been shown that the man did not intend to defraud or delay.

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* Who was present when the evidence was taken.

Q.—I think there have been a good number of cases where a man registers the sale-deed and values the land at about half the value, and there is no provision to remit a part.

A.—I have not had any such cases. If a case of that kind came to me I should refuse to remit.

Q.—You recommend that the probate duty should be graduated with reference to the value of the estate; and you don't think any other method is practicable; and you would extend the probate law to all communities?

A.—Yes, it comes to that.

19th May 1925.

OOTACAMUND.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President*.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. H. D. CORNISH, Bar.-at-Law, Administrator-General, Madras, was examined.

Written memorandum of Mr. Cornish.

1. The difficulty in the way of introducing a compulsory administration of Hindu estates is the element of survivorship in the Hindu joint family governed by the Mitakshara Law. A coparcener cannot dispose by will of his undivided share in joint property, because at the moment of death that undivided share accrues to his surviving coparceners. Even if he has died leaving separate property which will vest in his executor or administrator, the undivided share will not so vest, but will pass to his surviving coparceners.

Section 4 of the Probate and Administration Act V of 1881 expressly safeguards the right of survivorship. "The executor or administrator, as the case may be, of a deceased person is his legal representative for all purposes, and all the property of the deceased person vests in him as such. But nothing herein contained shall vest in an executor or administrator any property of a deceased person which would otherwise have passed by survivorship to some other person."

Survivorship is an element of the English system of joint tenancy, and in English law the share of a deceased joint tenant, whether in personal or real property, survives to his co-sharers or co-sharer, and will not vest in the executor or administrator of the deceased [see Williams on Executors, volume I, page 486, and Land Transfer Act 1897, section I (1)]. But though such share will not pass to the executor or administrator, it is subject to succession duty and estate duty. The Succession Duty Act, 1853, section 3, provides: "Where any persons shall have any property vested in them jointly by any title not conferring on them a succession, any beneficial interest in such property accruing to any of them by survivorship shall be deemed to be a succession." The 'successor' is accountable for the duty (section 42). The Finance Act, 1894, treats property passing by survivorship as property passing at death and liable to estate duty. The executor is accountable for the duty on the property which the deceased was competent to dispose; and executor means executor or administrator and includes any person who takes possession of or intermeddles with the property of the deceased [section 22 (i) (d)]. But in respect of property for which the executor is not accountable, any person to whom property passes for any beneficial interest in possession is accountable [section 9 (4)]. The executor, therefore, is not accountable for duty on property which does not vest in him; but the person to whom it passes is made accountable.

Probate duty is not payable on property which pays estate duty [Finance Act, 1894, section 1 (i)]. But probate duty was chargeable in respect of the estate of a deceased person for which probate or letters of administration was or were, or ought to be granted (see Customs and

Inland Revenue Act, 1881). And if assets of the deceased were recoverable by virtue of the probate, probate duty was payable (A. G. *vs.* Brunning, 8 H.L. Cases, page 259).

2. Although according to the rule of survivorship the undivided share of the deceased coparcener does not vest in his executor or administrator, but accrues to his surviving coparceners, it has been held that this rule must give place to statutory requirements of a title being established by probate or letters of administration. The Imperial Bank of India Act (XLVII of 1920), which has replaced the Presidency Banks Act and the Indian Companies Act of 1913, empower the bank or a company to require the production of probate or letters as a title to the shares of the deceased shareholder. This right of the bank (under section 23 of the Presidency Banks Act) was challenged in Bank of Bombay *vs.* Amabalal, 24, Bom., 350, where it was claimed that the surviving coparcener had a right by survivorship to be registered as the owner of bank shares which had stood in the name of his deceased coparcener without the necessity of producing letters of administration. In the course of its judgment, the court said: "It has, however, been argued that in view of section 4, P. and A. Act, section 23 of the Presidency Banks Act cannot be treated as applicable. . . . . It is said that inasmuch as the beneficial interest in the share passed by survivorship, the share would not, according to the words of the section, vest in the executor or administrator. But the argument is based on an obvious fallacy; it confuses the legal title and the beneficial interest, and assumed that because the beneficial interest has survived, the legal title must follow suit. But, as I have pointed out, it is with the legal title alone that we are concerned". And it was held that the bank could require the survivor to produce letters of administration. Reference may also be made to two other Bombay decisions—*The Collector of Ahmedabad*, 27 Bom., 140, and *Kashinath* v. *Gouruvabai*, 39 Bom., 245—which have established the principle that if probate or letters of administration be essential to establish a title to property, the appropriate court-fee chargeable under the Court-fees Act is payable, notwithstanding that the property in question is the joint property of a family governed by the Mitakshara and passed by survivorship.

The Madras High Court, too, in *Re Desu*, 33 Mad., 93, has held that a Hindu father cannot be said to hold his own share of joint ancestral property "in trust not beneficially" (within the words of exemption in annexure B, schedule III of the Court-fees Act) though he may be said to hold his son's share in that way. If therefore a son required letters of administration to the joint family property on the father's death he must pay *ad valorem* duty on so much of the property as was not property held "in trust not beneficially", i.e., on the father's share in the property.

3. The above authorities show that the property of a deceased coparcener which passes by survivorship can be subjected to a compulsory administration and levy in compliance with special statutory requirements. It follows, therefore, that there can be nothing unreasonable or impracticable in subjecting such property to the same obligation for the express purpose of taxation.

The value of the undivided share, it is suggested, should be the value of that share on the footing that a partition of the joint property had taken place immediately preceding the death of the deceased coparcener. The same principle would apply to a member of a Malabar *tarwad*, where partition can only take place with the consent of all the members of the *tarwad*, and not, as in the case of a joint Mitakshara Hindu family, at the instance of a single coparcener.

Any measure passed with this object would have to make it clear that the property of the deceased which would otherwise accrue to the survivors should, for the purpose and to the extent of the duty leviable for probate or letters, be deemed to vest in his executor or administrator.

4. To ensure the obtaining of probate or letters some compulsion would be necessary. At present the only direct compulsion is upon European or Anglo-Indian estates which, if over Rs. 1,000 in value and unadministered by executor or next of kin of deceased within one month of death, must be administered by the Administrator-General. In considering this aspect of the matter it may be observed that the freedom of Hindu and Muhammadan estates from this compulsory administration appears to rest upon the view taken by the courts in India at a very early period, that to compel Hindus and Muhammadans to obtain probate or letters would be a violation of the Statute 21, George III, chapter 70, which provided that Hindus

and Muhammadans were to have their own law of inheritance and succession [see *Subbhorchunder's case* (1849), 1 Taylor Bell, 39]. But this freedom has, as already shown, been to a certain extent abolished by the statutory requirements of the Bank Act, etc. In cases, too, where the Hindu Wills Act, 1870, applies, no executor or legatee can establish in a court a claim under a will without probate of that will.

In England there is no statute directly compelling probate or letters; but the Stamp Act (55, George III, chapter 184, section 3) provides a penalty for taking possession of or administering the effects of the deceased without obtaining probate or letters within six months of the death. It is suggested that a similar provision would be appropriate to persons exempted from the intervention of the Administrator-General under the Administrator-General's Act.

5. If legal representation is made compulsory for all estates, the provisions of sections 187 and 190, Indian Succession Act, should be made to apply to all. There could be no hardship in requiring the production of probate or letters as a condition to establishing a claim in respect of the estate in a court of law.

The limit of Rs. 1,000 fixed for compulsory administration by the Administrator-General's Act (section 9) should, it is submitted, be the limit for all estates. With regard to estates below Rs. 1,000 no court-fee is leviable for a grant of probate or letters (article 11, Court-fees Act, 1870). It is suggested that where probate or letters was or were not compulsory, a person desirous of recovering debts due to the deceased should be left to obtain a certificate under the Succession Certificate Act, VII of 1889, or under section 31 of the Administrator-General's Act.

To obtain a certificate under the former Act an *ad valorem* duty is levied on the amount or value of the debt to be recovered (2 per cent up to Rs. 5,000 for a certificate granted by the Administrator-General); 3 per cent commission is chargeable on the value of the estate. The Administrator-General's certificate can only be granted when the value of the assets of the deceased does not exceed Rs. 1,000, whereas a certificate under the former Act can be given irrespective of the value of the estate.

It is submitted that in the event of all estates above Rs. 1,000 in value being subjected to compulsory administration, the Succession Certificate Act should be limited in its application where the value of the estate did not exceed Rs. 1,000.

Another matter that may be referred to is the furnishing of sureties required by the testamentary rules of the High Court. There is no doubt that it is frequently most difficult for a party applying for a grant of letters of administration to procure the necessary sureties. It is suggested that this difficulty might in some way be met by giving the Court a discretionary power to dispense with sureties as under section 81 of the English Court of Probate Act.

Mr. Cornish gave oral evidence as follows:—

The President. Q.—You are Administrator-General, Madras?

A.—Yes.

Q.—You are the author of certain books on Hindu Law and you were a member of the Death Duties Committee of 1922?

A.—Yes.

Q.—Before we go into details, I should like to know a little more clearly the inter-relation of the various laws relating to succession. There is a note attached to the report of the Death Duties Committee on the subject.

A.—We were limited by our terms of reference to making suggestions as to the possibility and feasibility of introducing death duties on the English model: the result of our report was that we suggested that an estate duty might be levied on the English model. The suggestions we put forward were in the nature of an experiment, and the Bill that has been drafted, although giving effect to our suggestions, is hardly a very workable Bill.

Q.—Before we come to the Bill, may I refer to the existing law? I was referring to the note by Mr. Muhammad Fazl-ud-din. Does that note give a sufficiently full account of the existing law?

A.—It is a very full summary of the law.

Q.—Would you mind running through the recapitulation on page 7 of the Report of the Death Duties Committee and letting us know if it is a full summary?

A.—There is a mistake with regard to immovable property. At present there are three forms of legal representation. There is a probate or letters of administration, a certificate which is grantable under the Succession Certificate Act, also a certificate grantable by the Administrator-General when the assets are below Rs. 1,000. A probate can only be granted to an executor. If no executor is appointed by a will and there is a will, letters of administration will be granted and that grant of letters of administration with will annexed is made to the person who has the greatest interest under the will. If there is no will, letters of administration are granted to the next of kin. Apart from the form of the grant, there is no distinction between an executor and an administrator. Then there is the Succession Certificate Act which was passed for the purpose of facilitating the collection of debts and, as I said, there is a certificate which is granted under the Administrator-General's Act. So far as any direct compulsion to obtain legal representation is concerned, the only direct compulsion is that provided by section 9 of the Administrator-General's Act, which in effect says: In the case of any person who is not an exempted person under the Act (and exempted persons are Indian Christians, Hindus, Muhammadans, Parsis and Buddhists) leaving assets exceeding Rs. 1,000 in value, if he leaves a will and his executor does not prove the will or he dies not leaving a will and his next of kin takes no steps to obtain letters of administration within a period of one month from the date of his death, the Administrator-General is bound to step in and prove the will or administer the estate.

Sir Percy Thompson. Q.—Supposing that does happen and the Administrator-General steps in, how does it prejudice the people concerned?

A.—It simply means that the Administrator-General administers and charges his fees. These vary in different provinces. In Madras the fee starts with 3 per cent for Rs. 1,000; it is 4 per cent for Rs. 2,000, then 4½ per cent, 5 per cent, etc., up to 7 per cent. Though the fee is meant to cover the expenses of the office, it may also be taken as a set-off against the expenses a private administrator would otherwise incur.

Q.—Do they cover what the private administrator would pay by way of duty?

A.—No. The duty is separate. He pays a court-fee under the Court-fees Act. Over and above this, the commission may be set off against what a solicitor would charge for obtaining the grant on behalf of the client. In one of Mr. Birley's notes he gives a case where very heavy fees (something like 15 per cent) were charged for some Indian Christian estate for the purpose of getting a grant. It was suggested that that was a very heavy impost. It might or might not be, because a client who goes to a solicitor to obtain a grant might call on him or write to him frequently, and the solicitor or vakil is entitled to a charge each time. On one occasion I had six letters on one day from a beneficiary: if that person had written all those letters to a solicitor, that would have increased the bill considerably. The Administrator-General's commission is distinct from the court-fee which is payable under the Court-fees Act. The only people who are directly compelled to obtain legal representation are those who are subject to section 9 of the Administrator-General's Act which, in fact, means Europeans and Anglo-Indians.

Dr. Paranjpye. Q.—How do you come to know of the death of a person in the cases where you have to step in?

A.—In the mofussil, it is the duty of the District Judge to report the death of any non-exempted person to the Administrator-General and to take charge of that person's assets. In Madras itself, one has more or less to trust to luck. The death is reported by either a member of the deceased's firm or by some friend, or it may be that the death is only reported to the Administrator-General in some cases many years after the death has occurred, and the estate has got into some entanglement from which legal representation is the only means of extricating it.

Q.—The District Judge has no machinery to ascertain the death, while the revenue authorities may have such machinery.

A.—I know of cases where the death has come to notice years afterwards without any notice of the death being given to the Administrator-General.

Sir Percy Thompson. Q.—In England, everybody takes out probate or letters of administration; they do so simply because without it they cannot deal with any assets of the deceased.

A.—There is no escape in England.

Q.—You cannot deal with the assets of an estate in any way until you have taken out probate or letters of administration.

A.—It may be so here. The other day, I was given an Anglo-Indian estate to administer. A lady died and the children wanted to realize the property which had to be sold. No purchaser would give any price for it without the production of a probate or letters of administration. I then found that the husband had died six or seven years before, leaving a will. There was no necessity for the family to do anything until the widow died. That meant a double administration at the same time: the husband's and the widow's estates had to be administered.

Q.—In England, supposing a husband died leaving something for the support of his wife in the way of shares, would the company pay her the dividends?

A.—No; that is the same here. Such cases do occur pretty frequently. Legal representation is not taken out, because there has been no urgent necessity.

Q.—In the case you have mentioned, the wife's income might be from land in which case it is simply a question of changing the name of the owner, and there is no particular point in getting the name of the owner changed.

A.—Yes, people die without the fact being brought to the notice of the District Judge. I refer only to people who are under direct compulsion (Europeans and Anglo-Indians) by virtue of section 9 of the Administrator-General's Act.

Then you have the Hindu Wills Act which applies to wills made by Hindus in Madras or outside it, if they relate to immovable property in Madras. I am taking the Presidency town of Madras. The compulsion applied there is indirect. The Hindu Wills Act is a skeleton of an Act which to be effective, has to apply certain sections of the Indian Succession Act. Among those sections of the Indian Succession Act, there is a section (which corresponds to the English rule of law), which says that if you want to establish a right as executor or legatee under a will in a court of law, you can only establish that right as executor or legatee by producing a probate of the will. So that if a Hindu, to whom the Hindu Wills Act applies, makes a will and if it is not necessary to indulge in any litigation to establish a right as executor or legatee under the will, there is no necessity to take out any probate of that will. It is only in case the executor or legatee has to establish his right as executor or legatee in a court of justice that he has to produce a probate. This also has its drawbacks.

Q.—Supposing, for instance, he has left some house property by will to his sons in Madras, the sons might draw the rents from it: what would happen if the sons wanted to sell it?

A.—The same rule would apply: I was dealing with it from the statutory point of view. Apart from statute, there may be the insistence of a purchaser or debtor on legal representation being produced. I was dealing with the statutory compulsion, direct and indirect. If I may digress again for a moment, that section 187 has its drawbacks. I will give you a practical instance: A high caste Hindu gentleman died leaving a will. He appointed his sons as executors, and among the legatees was a lady of low caste with whom he cohabited during his lifetime. The sons did not approve of the father's relations with the lady or the fact of her being given a legacy. They refused to pay her. She brought a suit. She was met with the objection under section 187 of the Indian Succession Act that no right to a legacy could be established until a probate had been obtained. After a certain number of

adjournments, the matter was put into my hands, but the case ended in a compromise: the sons paid a portion of her claim. The section may be a defence to an executor against a legatee, because a legatee put in that position has to go through a rather expensive and troublesome proceeding to cite the executor, etc.

Apart from the Hindu Wills Act and the Administrator-General's Act, there are certain provisions, e.g., the Imperial Bank Act, which has superseded the Presidency Banks Act and the Indian Companies Act, both of which contain provisions to the effect that if a shareholder dies, the bank or the company are not bound to recognize any title to his shares unless a probate or letters of administration are produced by the person who claims title to those shares.

Dr. Paranjpye. Q.—Would you suggest making the provision compulsory instead of optional?

A.—Yes. Banks and Indian companies have a statutory right, before they register a fresh owner of shares which stood in the name of a deceased shareholder, to insist on legal representation being produced. That is what I call an indirect form of compulsion.

Sir Percy Thompson. Q.—Would you make that mandatory?

A.—Yes.

The President. Q.—Insurance companies are now seeking legislation on the same lines?

A.—Yes. There is a Bill to amend the Succession Certificates Act. It is stated in the "Statement of Objects and Reasons" that the purpose of the Bill is to compel everybody to produce a succession certificate. If I may speak from personal experience as an administrator of estates, I find that in practice some insurance companies pay without legal representation: others require probate if it is a will or letters of administration and in some cases a succession certificate. Apart from that, there are also provident fund rules made under the Provident Fund Acts. I have in mind the provident fund rules made by the M. & S. M. Railway Company: their rules are to the effect that if the provident fund is below Rs. 2,000, the committee in charge of that fund may pay out that money to the person who in their opinion is entitled to it, but if the amount is above Rs. 2,000, the payment as a rule has to be made in accordance with the Indian Succession Act, the Probate and Administration Act, or the Administrator-General's Act. It has been held that a nomination form is a will and being a will, it has to be proved, so that letters of administration with will annexed has to be obtained.

Sir Percy Thompson. Q.—Suppose I am a Hindu and one of the exempted persons. I have a crore's worth of land as to which my title is registered. Apart from that, I have also Rs. 10,000 worth of companies' shares. I die, and the heir asks the company to register the shares in his name. The company says "No, you must get a probate". Does that mean that a Hindu executor will have to pay the 3 per cent probate duty on the whole estate in order to get the Rs. 10,000 of shares?

A.—He ought to. As a matter of fact, I think it occasionally happens that you will get a grant which is limited to the property for which a grant is absolutely necessary by simply not mentioning the whole of the assets in the affidavit of assets.

The President. Q.—If they do that, aren't they liable to a penalty?

A.—An executor is bound to make a full disclosure of the assets and liabilities.

Dr. Paranjpye. Q.—Should it be done in the case of Hindus or in the case of exempted people?

A.—In the case of every one. First of all, in his petition in annexure A as required by the Court-fees Act, he states all the assets. When an executor is appointed by will, all the property of the deceased vests on him. There may be cases where limited grants are given, but, generally speaking, an executor applying for probate is bound to show all the assets of the deceased and not merely those assets for which he is compelled by circumstances to ask for a grant.

Q.—We have been told that people only ask for limited grants.

A.—You may have an executor appointed for a particular purpose for a particular property: in that case, the executor would be justified in asking for a limited grant; that is all he would be entitled to.

The President. Q.—Wouldn't he be liable under section 19 (e)?

A.—Yes, he would: but I have never heard of a case of anyone being caught that way. It may be that they have not been discovered, because it is a very difficult thing, especially in a joint Hindu family, to discover what the assets of the deceased are.

Q.—I regard it as a hardship. If a man applies for probate of a will and only mentions part of the property, he is liable to a statutory penalty, and he can only be excused on the ground of a mistake.

A.—Yes.

Q.—But a mistake of law is no excuse.

A.—Ignorance of the law is no excuse. If the authorities were satisfied that the man made an honest mistake, they might not press the penalty. There is a Madras decision to the effect that all the assets must be disclosed.

Q.—I understand that in respect of a mistake of fact you have no alternative but to impose a statutory penalty.

A.—I don't know, but I suppose that it might be left to the discretion of the revenue authorities. If they were satisfied that an honest mistake had in fact been made because the man was under the impression that it was not necessary to disclose it, they might not press for the penalties.

Dr. Paranjpye. Q.—In the case mentioned by Sir Percy Thompson, would it not be possible to avoid getting a probate by taking a succession certificate only?

A.—That might be so. Only a succession certificate cannot be granted where the Hindu Wills Act applies. If there is a will to which the Hindu Wills Act applies, I think it has been held that as a probate ought to be granted, therefore, a succession certificate cannot be granted.

I now come to the Succession Certificate Act. This enables people to obtain a form of legal representation which will satisfy a debtor. Suppose a man in whose favour a promissory note has been executed dies. His son wants to recover the money due on that note. The debtor can hold the creditor at bay until he produces a succession certificate. Such a certificate gives full indemnity to the debtor paying the debt to the legal representative of the deceased creditor. The fees charged under the Court-fees Act are a percentage on the amount of the debt.

The President. Q.—Would it be legal for him to take an indemnity bond in lieu?

A.—If the debtor was satisfied, he might: but a debtor is not bound to insist on a succession certificate. Very often it is a way of putting off the evil day of payment until the creditor takes the trouble to get a certificate.

Dr. Paranjpye. Q.—The debtor might use it as a lever to get a reduction?

A.—He might.

Sir Percy Thompson. Q.—In the case I mentioned where a man has a large amount of property and some shares, can he get a certificate as well as probate?

A.—The Act says that a certificate shall not be granted if probate or letters of administration ought to be granted.

Q.—He might be able to get the shares by means of the succession certificate?

A.—If the company do not insist on probate or letters of administration, a succession certificate might be sufficient. Take a case to which the Hindu Wills Act does not apply: a Hindu has shares in a company, he dies and his next of kin wants to get hold of those shares or, say, money in a bank. If the bank or company are satisfied with a certificate, that will be sufficient.

Q.—But if the bank says that they must have a probate before they will pay, according to law, he must pay 3 per cent on the whole of the property.

A.—It is just the same for letters of administration. A petitioner has to show all the assets unless, as I said before, he is entitled to a limited grant, say, where an executor is appointed for a limited purpose.

Q.—Supposing we don't recognize the heir without the production of a probate and the man goes over and gets a succession certificate. The company might say that they won't look at the succession certificate?

A.—A company which has adopted that provision in its articles about requiring probate or letters of administration might insist and say that they have a statutory right to demand a probate, if there is a will, or letters of administration. If they insist on that right, the petitioner is bound to acquiesce in their demand. If they do not insist on their right, it may be that a succession certificate would be sufficient. For instance, there is no hard-and-fast rule about this in insurance companies. Some insist on letters of administration or probate and some are satisfied with succession certificates.

Q.—If the company do not insist on their strict rights, what he would probably do is to apply for probate and only disclose those shares.

A.—He might or might not. A petition for probate or letters of administration has to have a statement of assets and that means you have to show all the assets.

The President. Q.—If a next of kin found that a probate was necessary and applied for a succession certificate, the court would not entertain that application?

A.—No. The District Judge would throw out that application. If the court was satisfied that it was a case for a probate or letters of administration, then a certificate could not be granted.

Q.—We were on the succession certificates.

A.—The fee charged is a percentage on the amount of the debt to be recovered: 2 per cent up to Rs. 5,000 and 3 per cent beyond that amount. If there is a renewal for a fresh debt, the original certificate can be enlarged so as to include the fresh debt and an increased fee levied. An Administrator-General's certificate can only be granted if the assets are not above Rs. 1,000, and the fee charged is not on the amount of the debt to be recovered, but on the amount of the assets. The Succession Certificate Act does not apply in Madras, so that a person who in the mofussil gets a succession certificate and who wants to recover a debt in Madras, must get a certificate from the Administrator-General and instead of paying as in the mofussil 2 per cent on the amount of the debt (if the debt was Rs. 200, he will only pay Rs. 4), he has to pay 3 per cent on the amount of the assets (if the assets were Rs. 800, he will have to pay Rs. 24).

Sir Percy Thompson. Q.—He can't get it if the estate is worth over Rs. 1,000.

A.—That is so. The reason is that under the Administrator-General's Act Rs. 1,000 is the limit fixed for the Administrator-General's power to grant a certificate.

Q.—A man in Madras, who wants to realize a debt of Rs. 1,000 on an estate worth one lakh of rupees, cannot take out a succession certificate for that Rs. 1,000: he has to go to the Administrator-General and pay 3 per cent on the whole of the estate.

A.—A certificate cannot be granted if the assets exceed Rs. 1,000. If a man has a lakh of rupees and he wants to recover a debt of Rs. 1,000, what he has to do in Madras is to get letters of administration and pay a court-fee on the whole of the assets.

Q.—In other words, in order to recover Rs. 1,000, he has to pay Rs. 3,000?

A.—Yes, if the debtor insists on legal representation.

The President. Q.—May we now go to the proposals for the future? I gather from your committee's report that it is not possible to bring together in a single Act the laws regarding probate and administration,

succession certificates, Administrator-General, Indian succession and Hindu wills. You did find that considerable amendment in the existing law was necessary?

A.—Undoubtedly. The whole legislation bristles with inconsistencies.

Q.—You proposed to continue and amend the existing laws wherever possible and to pass a new law which would make them applicable to the whole of Madras?

A.—That was the suggestion, because one of the terms of reference was whether it was possible to remove the existing hardships and inconsistencies.

Q.—Did you find yourselves somewhat tied by the terms of reference to the committee?

A.—Our report was to try and give effect to the terms of reference.

Q.—If you were free of any tie of that sort?

A.—There is ample room for amendment.

Dr. Paranjpye. Q.—Would you have a consolidated law for all cases?

A.—I would at all events try and bring everybody into the same fold for the purpose of death duties, whether you call that death duty, estate duty or succession duty: or whether, as I suggest, you introduce a form of compulsory legal representation for everybody.

The President. Q.—I don't follow the relation of your following two recommendations to one another: You say that "We do not consider that it is possible to bring together in a single Act the laws regarding probate and administration, succession certificates, Administrator-General, Indian succession and Hindu wills." In the next paragraph, you say that "We hope that after no long period of time the existing laws may be repealed and a law providing for an estate duty substituted."

A.—If you have an estate duty on the lines of the English Finance Act, you could abolish a good deal of the existing legislation relating to succession certificates, and so on. You could leave the question of probate and letters of administration as they are. I don't think you could get rid of the necessity for probate if it is necessary to establish the validity or the fact of a will in a court of law: that is a fundamental principle. In England the estate duty takes the place of the probate duty; here it would take the place of the court-fees, so that if a probate was necessary out here, instead of paying the court-fee (which may be compared with the old probate duty in England), an estate duty would be paid, and the grant of probate would be made as in England when the inland revenue authorities certificate is produced showing that the estate duty has been paid.

Q.—What is the distinction in England between the probate duty and the estate duty?

A.—The probate duty corresponds to the present court-fees—it was a duty paid on probate of a will.

Dr. Paranjpye. Q.—If now a man wants to prove a will in England, he is exempted from any further duty.

A.—Instead of paying the probate duty, he now pays an estate duty.

Sir Percy Thompson. Q.—In England when a man dies, his executor goes to the probate court and produces the will. The court in effect tells him to go and pay estate duty. If anybody objects or there is another will, he has to come forward within a certain time, but as soon as the certificate of the revenue authorities is produced, unless there is anything on the face of it which looks wrong, the probate court grants probate. After this, the executor is in a position to deal with the assets.

A.—In India, probate or letters of administration are not granted until the court-fee has been paid. In the Madras High Court, for instance, if an executor wants probate, he puts in a petition to the Deputy Registrar. The Deputy Registrar then sees whether the papers and petition are in order. If they are in order, he issues notice, if necessary, to cite anybody interested in the will and he also gives directions as to what advertisements are to be inserted. When all these things are done, the papers are sent to the Judge. If the Judge is satisfied (he is of course guided by the Deputy Registrar), he issues his *fiat*. On receipt of the Judge's *fiat* and after the court-fees have been paid, letters of adminisration are issued by the Deputy Registrar.

Q.—When is the time to contest a will?

A.—What is known as the *caveat* is filed, which means that nothing is to be done with regard to the administration without giving notice to the caveator. Then if there is a dispute, the matter takes the form of a suit and is thrashed out in court.

The President. Q.—Then may I come to the Bill which was framed—not by your committee but by one of your committee—on the basis of your report?

A.—I do not know who framed it.

Q.—At any rate, there are good many references to your report.

A.—Yes.

Q.—That does not represent what you propose now.

A.—I think it would be a complicated matter to introduce the estate duty on the model of the English estate duty. As I suggested in my memorandum, the least radical and the smoothest way of doing it would be this: to take the existing machinery and introduce compulsory legal representation for all estates. That is, the Hindu, for instance, would not be simply bound to obtain the probate of a will only if he comes under the Hindu Wills Act. What the State should do is this. Just as a bank or a company insists on legal representation, so the State should insist, whenever a person dies leaving property, on his next of kin or his executor or other person interested clothing himself with legal authority and obtaining legal representation either by means of a probate if there is a will, or letters of administration if there is no will.

Q.—You say "If legal representation is made compulsory for all estates, the provisions of sections 187 and 190 of the Indian Succession Act should be made to apply to all"?

A.—Yes. Section 187 says that if an executor or legatee wishes to get a decree in favour of some right under a will as executor or legatee, he must produce a probate or letters of administration with will annexed. Section 190 says: "No right to any part of the property of a person who has died intestate can be established in any court of justice unless letters of administration have first been granted by a court of competent jurisdiction". Those two sections merely incorporate the English rule of law, that if you want to prove your title as executor or beneficiary, you have to produce proof of your claim and probate is the conclusive proof of the fact of the will. It is, in fact, the only proof which the court will look at.

Q.—Everybody who dies, whatever race he belongs to, his next of kin or somebody else must produce either a probate or letters of administration?

A.—Yes. That is, what I term legal representation. The Englishman must do that always.

Q.—Would that not do away with the Succession Certificate Act altogether?

A.—The Succession Certificate Act might be limited to small estates. I believe that in England there is an Intestate Small Estates Act or something like that which enables the next of kin, where the estate is below a certain fixed value, to go and apply to the Registrar and obtain a certificate on payment of a small fixed sum. On that analogy I think the Succession Certificate Act here might be limited to small estates, say, where the assets are below Rs. 1,000. That is, for all estates over Rs. 1,000 either a probate or letters of administration should be produced; for all estates below Rs. 1,000 either a succession certificate or an Administrator-General's certificate should be produced; and thirdly the rate of charge on the Administrator-General's certificate should be the same as on the succession certificate. I would bring the Administrator-General's Act into line with the Succession Certificate Act. This is what I suggest.

Sir Percy Thompson. Q.—With regard to sections 187 and 190 of the Indian Succession Act, you have to take out probate if you want to prove the title and you say that is borrowed from the English section. But surely you have to do more in England. There, whether you have to prove your title or not, you still have to take out probate.

A.—So you would here. Even if the estate was below Rs. 1,000 it might be necessary to obtain probate to establish a will. My suggestion is that there should always be legal representation.

Q.—I was supposing that the man died leaving a property of Rs. 1,00,000 in solid cash and his widow and children live perfectly amicably, and there is no need to go to the court. Then sections 187 and 190 would not require probate to be taken out in that case.

A.—No; they do not.

Q.—But in England it is necessary.

A.—Yes.

The President. Q.—In the last sub-paragraph of paragraph 4, you say: "In England there is no statute directly compelling probate or letters: but the Stamp Act 55, George III (chapter 184, section 3) provides a penalty for taking possession of or administering the effects of the deceased without obtaining probate or letters within six months of the death".

A.—Yes: it does not say that you are bound to obtain the probate. If you interfere with the property of a deceased person without obtaining probate, then you are liable to the penalty. If my suggestion is carried out that everybody should obtain legal representation, that indirect compulsion provided by the English Stamp Act might be applied to people who are now exempt from the intervention of the Administrator-General.

Q.—That gives us your general scheme of levying the duties. Now, would you graduate the duties?

A.—My own view is that the best plan would be to charge a small duty; have a low minimum for taxation and charge small duties. I doubt if graduated duties are necessary. You take the ordinary case of a Hindu estate. The property generally goes to the son or he gives the widow a life estate and makes provision for his daughter. I think if you have a small scale of duties, graduation is not necessary.

Q.—But surely the bigger estate should pay more than a smaller estate does.

A.—I meant graduation on the ground of relationship. I have no objection to having a graduated scale of duty depending on the value of the estate. I think large estates should pay more.

Q.—The proposal in the Bill regarding graduation according to the degree of relationship is to have one-third more in all cases except in the case of a husband or wife of the deceased, or a lineal ancestor, or lineal descendant of the deceased.

A.—They got that from the English scale.

Sir Percy Thompson. Q.—You know there are two duties in England which are entirely separate. One is an estate duty which is progressive according to the size of the estate, and which has nothing to do with the beneficiaries. Then, on the top of that and quite separate from that, there is a legacy duty which is a duty which varies from 1 to 10 per cent according to the degree of relationship of the legatee; and it seems to me to be very difficult to combine those two kinds of duty. Now we want to know whether you would graduate the estate duty according to the size of the estate.

A.—Certainly I would graduate it according to the size of the estate. But I think it would be very difficult to graduate it according to the degree of relationship, because the Hindu does not often leave the property to a complete stranger. Even when he makes a will he will give it to a member of the family.

Dr. Paranjpye. Q.—If a Hindu has no sons and dies intestate, the widow gets a bare maintenance and the estate may go to a second or third cousin. And in that case is it not reasonable to charge a higher duty?

A.—Undoubtedly.

Q.—Such cases very often occur?

A.—My own impression is that the Hindu when he makes a will does not generally leave any property outside the family.

Q.—If he does not make a will at all, the estate goes according to the Hindu Law to a fairly distant relation, to his second or third cousin?

A.—Yes. I was thinking that if you have a small duty, graduation would not be necessary; because the property generally goes to one within the family.

Q.—You have given us an excellent and clear account of the position of the law. Is the law common to the whole of India?

A.—Yes.

Q.—Rates of duty?

A.—I think Bengal and Madras have special Court-fees Acts.

The President. Q.—Also the Hindu Wills Act is very partial in its application?

A.—Yes.

Dr. Paranjpye. Q.—You would have a common law for all India?

A.—Yes.

Q.—About the courts which are to administer the law, do you think that the ordinary judicial courts would be suitable for the administration of these duties?

A.—I do not see why they are not.

Q.—The work of the courts will be enormously increased, and this is work which lies outside the purview of these courts. It is really a revenue matter.

A.—What I suggest is this: follow the English model; introduce District Registry as in England; do what they do in the High Court of Madras, where the Deputy Registrar practically issues the grants. The petitions come before him and after doing all the preliminary work, he places them before the Judge who authorises the issue of the grants. At Home you have the District Registrars. The man goes to the District Registry and gets his grant there. I think it would be quite simple to make the Registry an offshoot of the District Court, which will deal with petitions for grants ordinarily and if it is a contentious one, it will go to the Judge.

Q.—Seeing that a large number of cases here are concerned with land or other immovable property—which is not the case in England—the revenue authorities will have to be consulted practically in every case. So would you not leave this to the revenue courts?

A.—That is an alternative scheme. My idea was to keep things as they are and enlarge probate registry in district courts and leave it to the revenue authorities to be satisfied whether a correct valuation has been put in.

The President. Q.—Is it not the case at present that the High Court appoints from time to time such judicial officers?

A.—Yes, the district delegates. But a district delegate cannot deal with contentious applications. He will have to refer them to the Judge.

Dr. Paranjpye. In England most of the work is done by the revenue authorities and it is only a formal matter for the courts.

Sir Percy Thompson. Q.—You have your probate court?

A.—In the High Court we have the Deputy Registrar who deals with all probate matters.

Q.—What happens at present is that the man applies to a certain judicial authority for probate. and the judicial authority says "Pay so much by way of court-fees and I will give it: I am satisfied of your title but pay so much court-fees". Now the suggestion is that the judge should say "I am satisfied with your title; go and pay what the revenue authorities decide and then I will give you your probate". That is the only change?

A.—Yes. Or you may leave it just as it is now. That is, the statement of the assets is sent to the Collector who can scrutinize it and enquire into its accuracy.

Q.—The only change is to whom the fees should actually be paid?

A.—Yes. Use the existing machinery and expand it if necessary.

Dr. Paranjpye. Q.—You don't consider that any legislation of this nature requiring compulsory succession certificate or probate or letters of administration will be considered to be an encroachment upon the undertaking given by the Government?

A.—You must have some compulsion. If a company has the right to insist on legal representation, the State has equally the right to say that it will not recognize anybody as having a title to the deceased's property unless he establishes that title by means of legal representation in the form of probate or letters of administration.

Q.—On whom do you throw the responsibility?

A.—On the next of kin. That may be the eldest son or if he is a minor, his guardian. No letters of administration or probate can be granted to a minor.

Q.—Now let us come to the vexed question of the Hindu joint family. If a person dies, would you apply the rates of duty only to the portion of the deceased?

A.—Yes.

Q.—Then don't you think that will be treating the Hindu family much more favourably than others?

A.—That seems to be inevitable. If the deceased person had only a right to demand a particular share of the property, I don't see how you can tax it on the same footing as you would tax the full owner. For instance, suppose A and B, father and son, have property worth Rs. 10,000 between them. In a partition each will take Rs. 5,000. If A dies, tax A on the share that he would have got had the partition taken place. Suppose B dies afterwards. Then you tax him on the whole Rs. 10,000. You are bound to get the full amount some time or other, either when the property begins to be ancestral, when it makes its first descent or some time later when it passes to a single survivor.

Q.—Now suppose there is an ancestral property worth Rs. 10,000; there is a father and one son and they are Hindus. Then when the father dies, only Rs. 5,000 will pay the duty. The son will not die for the next 30 years, and the remaining Rs. 5,000 will pay duty on his death. But it may happen that that son has himself sons, in which case the whole of that Rs. 5,000 will not pay the duty.

A.—It might be split up and the portions may pay the duty. But I do not see how you can avoid that. If A and B are two members of a joint family, at one particular moment each of them may be entitled to half of the property. But sons come and reduce the potential share.

Q.—The real principle is that the State comes in for its share at the time when the estate passes from one hand to another. That being the principle, in a Hindu family, property passes not only on death but also on birth. If you are to treat all communities on the same level, you should charge duty both at the time of death and at the time of birth. Theoretically, that will be the proper principle.

A.—My view is that it is impossible.

Q.—Suppose at present you register the property held by everybody. Then treat all people as if they were governed by the Indian Succession Act, so that if sons are born after the registration has been made, charge on the whole property on the death of the father, and then when the son dies, don't charge it just as in the case of a Christian.

A.—That would be doing violence to the whole idea of the Hindu co-partnership.

Q.—You don't interfere with the law of succession at all. Only so far as the payment of the duty is concerned, we treat the property as if it were governed by the Indian Succession Act.

A.—In other words, you fix the share for the lifetime of that particular individual?

Q.—Yes. In a family if there is one person of the highest generation, on his death you charge it on the whole estate. If there are three persons of the highest generation, then we may charge each at one-third of the rate. But while a portion of the highest generation is living, we do not charge one in a lower generation.

A.—That would drive, I think, joint families into partition.

Q.—You also charge partitions made within three years of the death of the highest member.

A.—For example, take a property worth Rs. 10,000. If there is a possible means of paying a less duty on partition than when remaining joint, the family would undoubtedly divide.

Q.—It would be of the nature of a gift. In England, for instance, gifts made within three years of death are charged.

A.—You can't call partition a gift.

Q.—In the case of a Christian in India, he might do the same thing. He might make a gift to his son and then he would escape the duty. In the case of a Hindu family, instead of the gift, the son may claim partition.

A.—I do not think partition is the same as gift. Partition really is crystallising into definite shares what formerly was undivided.

Q.—You can have some limit, say within three years of death. In that way all communities might be brought to the same level.

A.—There are certain decisions you would have to get over. For instance, it has been held very frequently that the passing of property by survivorship is not a succession.

Q.—We are considering a new law altogether, so that we need not trouble too much about decisions. But would that be a possible expedient of bringing all communities to a common level?

A.—I think the great objection is that you would be creating an uproar in the Hindu joint families.

Q.—Is not there at the present moment a tendency to do away with the joint family? At the utmost you see only brothers living together in a family. It is a very rare thing to see any cousins living together, and even the brothers separate after a time.

A.—Yes.

The President. Q.—You think a law of the sort would tend to accelerate the breaking up of joint families?

A.—Yes. If a joint family with a number of sons would have to pay more if they remained joint than what they would have to pay had they separated, undoubtedly they would separate.

To meet the objection of taxing the shares of coparceners dying in infancy you might leave it to the revenue authorities to make a remission if a certain number of such deaths occur in a family within a certain period, though it is the survivors who benefit by these deaths. Supposing there are two brothers and four more brothers come into the world, the shares of those two elder brothers would be reduced from one-half to one-sixth. Let us suppose the four minor brothers die, the potential one-sixth becomes the potential one-half again. I know there is a very strong sentimental objection; therefore, either you should leave it to the revenue authorities to give remission when a minor dies, or you should see that no duty is charged on the share of a minor coparcener who dies below a certain age.

Dr. Paranjpye. Q.—But in any case, in that way, the Hindu family is treated much more leniently than others. The suggestion I would make to you is to treat all the communities equally.

A.—I think having regard to the fact that no member of the Hindu joint family is a full member you must bear that in mind when you tax his share. A Hindu family has to stand a good many charges which are not binding on the European or Anglo-Indian communities, for instance, marriage of sisters, etc. An English brother who inherits property from his father, is not bound to spend a penny on the marriage of his sister—I mean he is not legally bound. I think that may be taken into consideration in letting the joint Hindu family off a little more lightly than others.

Q.—You can allow rebate in such cases.

A.—You could not predicate the amount of liabilities; for instance, until marriages occur, you cannot say what the expenses would be,

Q.—Then you have got the life interest of the widow in the family, you will have to allow a rebate for that also. Therefore in finding the corpus of an estate, you will have to consider all these circumstances.

A.—Yes. But I do not know how you are going to fix the money value in all these cases.

Q.—There should be no difficulty at all.

A.—If you take a Hindu family with a number of brothers, they may have a partition, or they may be entitled to partition, but when they make a partition, they will still have the encumbrance of the liability for marrying their sisters, etc. So also if there is a widow, her right of maintenance and residence in the joint house have to be considered. These are all encumbrances upon the joint Hindu family. I do not see how you are going to put a money value upon them. So by letting the Hindu family off a little more cheaply, you do to a certain extent compensate for the other charges to which the Hindu family is liable and to which no English or Anglo-Indian is liable.

Q.—Supposing a partition takes place where there are four brothers and three sisters, the latter do not count?

A.—No, in some parts of India, but not in this Presidency, sisters are entitled to a share, but, generally speaking, the family are liable for the female relations who are not married. They would be liable for marriages and for maintenance.

The President. Q.—May I put to you another point from Mr. Fazl-uddin's note? He says "Under the Hindu joint family system there is as much chance (absent in the English system) of decrease in one's interest in the joint family property by the birth of fresh members as there is of increase by death as under the English system. If it is considered reasonable to levy estate duty on deaths, it must be equally deemed reasonable to compensate for decrease by births and that cannot be considered practicable."

A.—I do not see how it is practicable. Under the English joint tenancy, there is no prospect of the shares decreasing, and there is no possibility of fresh joint tenants coming in. In the case of the Hindu joint family, there is fluctuation the whole time.

The Maharajadhiraja Bahadur of Burdwan. Q.—I may say, to begin with, that I do not think in India we have as yet come to the stage that by one stroke of the pen you can make for all the Hindus of India one kind of law. For instance, in Bengal you have the Dayabhaga Law and in Madras and other places you have Mitakshara Law.

Dr. Paranjpye.—If I may be allowed to explain, I do not want to interfere with the succession, but so far as the duty is concerned, I would regard them all as on the same level.

The Maharajadhiraja Bahadur of Burdwan (continuing)—I quite see what Dr. Paranjpye has said. Before I come to the point which he has raised I wanted to refer to the case you just put before us where a lady of lower birth or class than the man who made the will contested for a certain amount of money as a legacy which was left by the man, and in that case you said that the case came up before you and it was compromised.

A.—Yes.

Q.—Supposing there had not been a compromise, the lady would have had difficulty in getting the profit of that particular will, because the sons who were against her probably had made up in their mind to take the whole property. In the case of that kind what is your opinion about the remedy?

A.—I have no doubt that there was a remedy under the Administrator-General's Act. If a Hindu or Muhammadan dies leaving the assets within the local jurisdiction of the High Court and there is the danger of waste or fear of misappropriation then the High Court can issue an order directing the Administrator-General to administer the estate or to take charge of it. There is not the slightest doubt if it had been fought out I should have got

at the property in that way. On the other hand, if the testator had not left any property within the local jurisdiction of the Madras High Court, the Administrator-General could not have interfered at all.

Q.—The second point I want to make is this. Supposing the man had left a lot of property, and the only son was an adopted son. The adopted son succeeds to the property of the father. At the same time the man has left a will although there was only one son. Therefore, the son succeeds not only under the survivorship but also under the will. But he does not choose to take a probate of the will, because he is sure that there is nobody else who is likely to contest his title, although there might be a number of beneficiaries. Even then, that man has at the present moment to take out, if he has landed property in different districts, what is called in Bengal *nam kharij*, that is, under the Land Registration Act his name has to be substituted in place of the father. Therefore, although he may not have to pay probate duty for the will, he has to pay certain charges for his succession to get his name registered in place of his father in the land revenue registers.

A.—I am not quite sure whether the registration in Bengal in those circumstances would amount to title or would be equivalent to what is in Madras a *patta*.

The President. Q.—The Maharaja Sahib is talking about the permanent settlement.

A.—It may be that registration in Bengal does not give a title to the registered person any more than a *patta*. Here in Madras a *patta* is not proof that the *pattadar* is the legal owner of the land. He is merely registered as the person responsible for the revenue.

Q.—I think the position is quite distinct in temporarily-settled areas. The *patta* is only a document for the demand due. But in a permanently-settled area, if there is a succession and an enquiry has to be held before the Collector, mutation is required.

The Maharajadhiraja Bahadur of Burdwan. Q.—In the case of the kind I have referred to you, it does not matter if the man is legal heir, he has still to go before the Collector in the different districts in which he has property and after paying the mutation fee he has to get his name registered. In any scheme that you may have, an amalgamated estate duty or anything else, because you wanted that for estates below one thousand, you would have a succession certificate, and in the case of estates beyond one thousand, you will see that the man will have different kind of duty to pay at present. You said you would like to have a succession certificate for the poorer classes, that is to say, for people who have an income of below Rs. 1,000. In the case of consolidated estate duty which you may have, how would you get over the difficulty of this question of mutation?

A.—I understand these amounts are fixed for practically getting fresh titles.

Q.—It is not fresh titles, it is like this. In *tauzi* No. 1 there is a particular property belonging to Mr. A. He dies and Mr. B, his son, has to come forward before the District Collector to show that he is now the heir and his name has to be registered in the place of A as proprietor of *tauzi* No. 1, and then he begins to pay land revenue. It strikes me in whatever form you may have a consolidated estate duty, there are certain other charges which it may be difficult to bring in to a consolidated estate duty, and if it were difficult, don't you think that when you have the consolidated estate duty on landed property it may be necessary, when you have a scale of graduation, to take into consideration the other demands the landed property may have to meet, and which it may not be possible to consider in the consolidated estate duty?

A.—I quite follow. In the illustration you have given it is compulsory for the particular individual to get probate, he has also to pay certain fees to get himself registered as the new proprietor. I believe in England in the payment of estate duty, the succession duty which is also payable is taken into account or rather is deducted from the amount on which estate duty is payable. I think in this case you might say: If court-fees have to be paid for probate, you will deduct, in fixing the valuation of that estate, any fees that have been paid in respect of registration or anything of that sort.

Q.—You admit these factors will have to be taken into account?

A.—Undoubtedly.

Dr. Paranjpye. Q.—No mutation fee will be charged if the probate duty has already been paid? You can have some such rule.

A.—Yes.

Q.—You might lay down a rule that mutation fee will not be charged if the probate has been paid?

A.—Yes.

Sir Percy Thompson. Q.—At the present time in respect of Hindu estates a man is not bound to take a probate; therefore, another procedure has to be adopted for legalising his succession, and that is done before the Collector, and for that a mutation fee is charged. Supposing you have a general rule that a probate ought to be obtained, would not the whole of the procedure of going before a Collector and paying a mutation fee disappear?

A.—Yes, it might. There would be no necessity for obtaining two titles.

The Maharajadhiraja Bahadur of Burdwan. Q.—I am now speaking of quite a different case. Supposing there is only one son, and that too an adopted son, and the father of the man had also left a will, and the will is not produced. The adopted son thinks that he need not produce the will and need not take the probate which will cost him lot of money, because there is nobody to contest. In such cases he will have only to go and appear before the Collector to have his name registered and pay mutation fees. There the matter ends. In those cases when you have a consolidated estate duty, when you have to produce a will and when producing of the will is made compulsory, where a will does not exist, you will have to make some provision?

Sir Percy Thompson.—Supposing there is a will left, then the man will have to obtain a probate and pay the duty. Now let us take the case where there is no will. It is necessary to take out the letters of administration. It is precisely the same. Therefore the whole of your mutation fee will disappear.

The Maharajadhiraja Bahadur of Burdwan. Q.—Supposing A and B are the father and son. A dies. B, who is already in possession of five thousand during the lifetime of A, has to pay on five thousand which was his father's share. Meanwhile C has come into existence; then there is a partition; when C comes in, he pays a duty on ten thousand rupees?

A.—No. He pays only on five thousand. Taking A and B father and son, with ten thousand rupees joint family property, A dies and no son is born to B, the whole of the property survives to B. If a son is not born, A would take 5 and B would take 5 in a partition. B would have to pay death duty on A's half share, that is, five thousand. Then C is born; B takes 5 thousand and C takes 5 thousand in a partition. When B dies the whole ten thousand survives to C and C would pay on the share B would have taken in partition.

Q.—Supposing A and B have property worth ten thousand and B's share is five thousand and A's share is five thousand. When B actually gets five thousand, you would charge only on five thousand?

A.—When A dies, his son B would pay on the share that A would be entitled to, if partition had taken place between him and B in the ancestral property, and he would pay on any separate property inherited from A in full. If Rs. 5,000 was inherited by B from A it would, according to the Mitakshara Law, have become ancestral property between B and his son C, so that when B dies, his son C would pay on the share of B in a partition between B and C.

Q.—Even under the Mitakshara Law, there are a great many difficulties. What Dr. Paranjpye had in view was the English law. Suppose a father leaves two sons £50,000 each; one son dies during the lifetime of the other and the property is still intact. Suppose also originally the two brothers in paying the estate duty paid on their equal share. If the elder brother dies after the death of the father, would not the other brother have again to pay on the £50,000? According to you, C, the grandson, would not pay in full.

A.—It would depend on whether the property was the separate property of B or the joint property of B and C.

Q.—The other question put to you was by Sir Percy Thompson about ready cash. It is perfectly clear that if a bank or Indian company insists on probate, the man would have to take probate on the whole of the property, even if it is ten lakhs of rupees. But suppose a man has Government promissory notes worth a lakh of rupees and he does not take a probate of the will, can he get them transferred to his name?

A.—Under the Indian Securities Act, certain provisions have been made for the renewal of notes which stood in the name of a deceased, and under that Act I believe the constituted authority can, if satisfied that the pronotes stood in the name of a member of a joint Hindu family, after enquiry and being satisfied that the due claimant has stepped into the shoes of the former, transfer or make a renewal of the notes in favour of the new man, and I think that particular section is equally applicable to the member of a Malabar *tarwad*. It may be that under the Act a transfer can be made to the next of kin without producing legal representation, but I am not sure about it.

The Maharajadhiraja Bahadur of Burdwan.—I know of a case in Calcutta where a zamindar, before he died (and he died in his full senses), transferred all his promissory notes to different people, so that they might escape payment of tax.

Sir Percy Thompson. Q.—With regard to this question of the Hindu family, is not the whole theory of estate duty that you pay on the value of the assets of the deceased which pass on death?

A.—Yes.

Q.—Suppose in a Hindu family there is a father and a son and the assets are Rs. 1,00,000. When the father dies, you have to enquire what is the value of the assets belonging to the deceased which pass on death. I know it cannot be sold in open market. But you have to imagine what the value would be if the estate worth Rs. 1,00,000 were sold in open market, subject to the liability that at any moment some person could claim a share.

A.—That is so. For certain purposes, the potential share of a coparcener is regarded as assets, that is to say, under the Civil Procedure Code, ancestral property in the hands of a son is made liable: a creditor can proceed against the ancestral property which is survived to the son after the father's death. That rests on a special rule of the Hindu law that a son is liable for the father's debts, or a joint estate which survives to a brother may, under certain circumstances, be liable for the debts of the brother. One brother is not liable for another brother's debts according to Hindu Law, but if one of two brothers (A and B), incurs certain debts, he may mortgage his share or sell it—before the purchase is completed, he might die or he might incur some debt in respect of which a creditor has obtained a decree—if the creditor obtains and gets an attachment of the share before his debtor's death, he can still pursue his remedy after that debtor's death against the share in the hands of the survivor. He can work out his remedy by means of partition. It has been held by Justice Kumaraswami Sastry that the Administrator-General can, in order to ascertain whether the value of an estate is below or above Rs. 1,000, take into account the value of the share the deceased may have had in any joint property. In the particular case I mentioned there were two brothers, the surviving brother had applied to me for a certificate. The separate estate of the deceased was under Rs. 1,000. The deceased brother being joint and the living brother having applied for a certificate, in order to judge whether the whole estate of the deceased was below or above Rs. 1,000, it was necessary to take into account the half share of the deceased brother in the joint property.

The President. Q.—One witness told us that the Indian Succession Act, which applies to Christians, renders it obligatory on members of this community to take out probates for all wills.

A.—Section 187 applies: it is only in the case of an Indian Christian requiring to establish a claim in court as executor or legatee that he must obtain probate. If it is not necessary to do that, he need not take probate. Indian Christians have been specially exempted from section 190.

Mr. C. B. COTTERELL, C.I.E., I.C.S., Secretary to the Government of Madras in the Local Self-Government Department, was next examined.

Written memorandum of the Local Self-Government Department, Madras.

TAXATION AND FINANCES OF LOCAL BODIES.

Q. 106.—As a general proposition the main criterion for levying the taxes necessary for national services is no doubt ability to pay and for local services measure of benefits received, but it is difficult to assess the extent of local benefits properly. Services like water-supply and drainage, construction of bridges, benefit not only the residents of the day who largely contribute towards their cost and upkeep but also the posterity and the visitors. Again, the nation has a great interest in maintenance of such services intended to keep local areas healthy, as in the event of an epidemic breaking out, the whole nation suffers. Services which immediately benefit the local area are sometmes ultimately national in character, and it is right that all persons who are able to pay should contribute towards their upkeep.

Q. 107.—It is desirable to give local bodies further powers of taxation. The following taxes now included in Schedule I of the Scheduled Taxes Rules and assigned to Local Governments should be transferred to Schedule II:—

Item 4	...	...	Tax on advertisements.
Item 5	...	...	Tax on amusements.
Item 8	...	...	Stamp duty other than duties of which the amount is fixed by Indian Legislation.

They are really taxes to which the local bodies have a preferential claim. The Government of India have permitted the introduction of a Bill in the Legislative Council to enable local bodies to levy a tax on entertainments. The Corporation of Madras has been already permitted to levy a duty of 2 per cent *ad valorem* on transfers of property effected within the limits of the city. This duty is levied as a surcharge on stamp duty. Terminal tax should be levied on passengers also. The following words against item 8 in Schedule II should be omitted:—

"save where such tax is first imposed in a local area in which an octroi was not first levied on or before the 6th July 1917."

Rule 7 of Schedule V of Madras Local Boards Act, 1920, provides for a voluntary transfer to district boards by Local Government of a portion of the abkari revenue. The Financial Relations Committee appointed by this Government in 1920 recommended that local bodies should be empowered to levy a surcharge on excise revenue. It seems preferable to permit local boards to levy a surcharge to assigning a portion of the revenue to them. If a tax on tobacco is levied, one-fifth of the revenue so raised should be assigned to local bodies. The whole of sale license fees in municipalities may be assigned to municipal councils.

It is not necessary that the levy of any specific taxes should be imperative. The local bodies may be trusted to levy the main taxes required to maintain their services. If the levy of taxes is made imperative, local bodies are likely to resent it as an undue interference with local self-government and there seems to be no reason why Government should take the 'onus' of forcing local taxation.

Q. 108.—So far as octroi is concerned, this Government has no experience of the tax as it is not levied in this province. As regards house tax, land tax and land cess the Government consider that they are satisfactory from an economic point of view. Persons who pay the taxes derive benefits which accrue as a result of the local bodies maintaining services like roads, sanitation, lighting, etc. The local bodies cannot at present afford to lose the income from any of the taxes specified in Schedule II. It is possible that income from remunerative enterprises can be developed considerably if the local bodies make a real effort to develop these sources. In this connection attention is invited to G.O. No. 862, L. & M., dated 14th March 1925, in Annexure I. They can maintain the existing services in an efficient standard and the surplus left after meeting the cost of services may perhaps in course of

time enable the local bodies to reduce the rate of taxes or to abolish some of them. There is no indication that at present the local bodies have explored the possibilities of developing these resources.

Q. 109.—As stated before, this Government have no experience of octroi. So far as terminal tax is concerned, the objections referred to in the case of octroi do not apply. The tax is at present levied by the Corporation of Madras on timber only and they have not felt any difficulty in assessing and collecting the taxes.

Q. 111.—The local boards depend very largely for the money required to maintain roads on tolls. They cannot afford to forego this income. In the case of municipalities the income is considerable and the councils will find it difficult to lose this source of revenue. In the present stage of advancement in India tolls are probably less objectionable than would be an increase in direct taxation. Net receipts from tolls should be spent entirely on the roads. Government would be justified in insisting on this.

In the Local Boards and District Municipalities Acts of 1920 the rate of toll on carts was reduced from As. 4 to As. 3. The local bodies complained that this involved considerable loss of income and the rate was subsequently restored to As. 4 with the approval of the legislature. In this province at any rate, tolls have been found necessary. The minimum limit of distance is 20 miles between gates in local board areas, but the distance is reduced to 10 miles in the case of rates near municipal limits. Exceptions to this rule are allowed in some cases. These limits have proved satisfactory.

Q. 112.—The answer to both parts of the question is in the affirmative. In the case of local boards, tax on houses and land cess are payable by the owner or occupier. In the case of municipalities the property tax is leviable from the owner. The owner can always shift the burden of the tax to the occupier.

Q. 113.—The existing enactments do not lay down any limit in regard to property tax on lands and buildings, but in the case of land cess a maximum of 1 anna 6 pies in the rupee of annual value is laid down. It is proposed to legislate for raising this rate to 2 annas. The existence of a maximum tends to the boards being short of funds and to neglect of services. Its removal will not lead to local bodies raising the rates unnecessarily. On the other hand, their tendency always is to reduce the rates wherever possible. It cannot be said that the presence of a maximum limit forces them to adopt other forms of taxation less defensible from an economic standpoint. The limit on land cess may be removed.

Q. 114.—Under proviso (*c*) to section 84 of the District Municipalities Act, 1920, it is open to a municipal council to exempt any building or land from property tax if the annual value of the same does not exceed Rs. 18. The limit of exemption in the City of Madras is Rs. 36—vide *proviso* (*c*) (1) to section 102 of Act IV of 1919. The limits are reasonable.

Q. 115.—The municipal council should have the power of rating land according to its annual value. Where the annual value cannot be estimated the council should have the power of taxing either on extent or on capital value and in the latter case a percentage of the capital value not exceeding the ordinary rate of interest, say 6 per cent, should be taken as the basis of assessment. The improvements effected by the owner or occupier should generally be exempt. If land value goes up as a result of the activities of the local authority, they should have power to tax the unearned increment. The tax on urban lands should go entirely to municipal revenues instead of partly to Government and partly to councils as at present in this province.

Q. 116.—Government have no experience of a tax on cotton. Profession tax has been levied in municipal areas for a long time and in local board areas since 1st April 1921. The companies tax was introduced by the Acts of 1920 and is levied in both municipal and local board areas. In many cases the taxes are not assessed properly. Both profession and companies taxes are most suitable to municipalities. The local boards experience considerable difficulty in assessing and collecting the taxes. The tax on companies should be levied on net income instead of on the paid-up capital, gross profits or business turnover.

Q. 117.—This Government have accepted the following general principles regarding provincial subsidies to local bodies:—

(1) that ordinarily grants should be made for specific services and not in aid of the general resources of the local bodies;

(2) (*a*) that Government aid to local bodies should be confirmed to certain services which are semi-national in character,

(*b*) that the aid may take the shape of the central administration of a service or part of a service (in which case the whole cost of such administration will be borne from provincial funds) or of a payment to the local body of the cost, or part of the cost of administering the service,

(*c*) that the Government will determine from time to time what services are to be regarded as semi-national and which of them should be centrally administered;

(3) that exceptions to the general rule in (1) above are admissible in the case of (*a*) specially poor local bodies, (*b*) pilgrim centres and (*c*) sanitaria.

Cost of national services like trunk roads and hospitals at headquarters should be contributed wholly by Government. In the case of semi-national services like provision and upkeep of second-class roads, schools, hospitals and dispensaries, water and drainage works, the Government should bear a portion of the expenditure incurred by the local authorities. Important services like those of district board engineers, district health officers should be retained in the hands of Government and paid by them. Services which are parochial in nature like upkeep of village roads, sanitation and lighting of streets should be attended to by local bodies themselves.

Q. 118.—No such stimulus exists in this province. Government supervision of essential services is necessary to secure a degree of efficiency in the administration. This Government make the grants for trunk roads after obtaining reports from Superintending Engineers as to their condition. Similarly, in the case of second-class roads, the half-grants are disbursed on the reports of the Collectors. Education and sanitation are largely controlled by Government inspecting officers. The above system of control works satisfactorily.

Q. 119.—Some of these taxes are already levied in somewhat different forms in this province. Local bodies in this province are empowered to levy profession tax and companies tax. Business profits and capital stock of corporations will come under the scope of these taxes. In hill municipalities the District Municipalities Act provides for the levy of a servant's tax from employers of servants. Local bodies generally may levy licence fees on hotels. Land cess may be levied on mines.

Q. 160.—Yes. Non-tax resources like markets, cart-stands, slaughter-houses, avenues, etc., should be developed before additional taxation is resorted to.

Q. 161.—The present system under which district and taluk boards levy a land cess is satisfactory. No minimum need be laid down to the percentage of land revenue which may be levied by boards as a surcharge. At present, though the maximum is only 1 anna 6 pies of the annual value, some local boards are reluctant to levy the cess at the maximum permissible.

Q. 162.—Central and Provincial Governments should certainly pay property tax on property owned by them within the limits of local authorities. If the Government seek exemption from payment of local rates, the subsidies to local bodies will have to be correspondingly raised. Local bodies are not now accorded any preferential treatment by the Government in regard to levy of customs on imported stores or land revenue on the property of local bodies.

Qs. 167 and 171.—So far as assessment by local bodies is concerned, the experience in recent years has been that taxes are not properly assessed or collected. The work of assessment and collection should not be done by persons dependent on the votes of the electorate. It should be done by a paid agency. In larger municipalities an officer of the grade of deputy collector may be appointed to make assessments and to be in charge of collection work. In the case of smaller municipalities an officer of the grade of deputy tahsildar should ordinarily suffice. The officer should be appointed with the approval of Government. He should probably be called 'executive officer'. He should be empowered to revise the assessments periodically without any interference from the local bodies. The appellate power now granted to local bodies in regard to revision of assessments should be taken away or, if it is retained, the assessing officers should be given the power of moving the court to revise the council's decision.

ANNEXURE I.

G.O. Mis. No. 862, L. & M., dated 14th March 1925.

The importance of developing the income from remunerative enterprises has more than once been brought to the notice of the local authorities. Their attention is invited to paragraphs 211 to 220 of the Report of the Financial Relations Committee communicated with G.O. No. 1193 L., dated 27th November 1920, and to G.Os. No. 707 M., dated 25th May 1920, and No. 1206 L., dated 3rd December 1920.

2. A study of the figures for 1923-24 produces the following results. The income from railways is not taken into account. The district and taluk boards realise a surplus of Rs. 5,02,000 in 24 districts. Of this amount Rs. 2,80,000 was realised by four districts. The average for these four districts is Rs. 70,000. The union boards in 24 districts realise Rs. 3,02,000. Of this amount nearly Rs. 1,38,000 was realised by the union boards in five districts. The average for these five districts is Rs. 27,600. Among municipalities the figures are as follows:—80 towns realise a surplus of Rs. 9.05 lakhs. Of this amount over Rs. 4.2 lakhs was collected in 13 towns. The average for these 13 towns is Rs. 32,300.

3. If these average amounts had been attained by the other local bodies, the result would have been a net revenue for district and taluk boards of Rs. 16.8 lakhs, a net revenue for union boards of Rs. 6.62 lakhs and a net revenue for municipalities of Rs. 25,84,000, that is to say, the net revenue from these remunerative enterprises to local bodies in the Presidency would have been Rs. 49.3 lakhs instead of less than Rs. 17.5 lakhs.

4. The Government are of course aware that the conditions in districts differ considerably, but it is by no means a safe assumption that it is the richest districts which make the most money out of these remunerative enterprises. The district and taluk boards in Kistna district, for instance, made no net revenue from these sources for 1923-24. The Government are convinced that it would not be at all unreasonable to expect an average of Rs. 70,000 for district and taluk boards in a district, of Rs. 27,600 for the unions in a district and of Rs. 32,300 for a municipality.

5. The Government trust that the presidents, chairmen and members will ponder these figures and pay real attention to the development of these resources. They consist mainly of markets, cart-stands, slaughter-houses and avenues. It must be remembered that these are perhaps the most satisfactory sources of local revenue. The payments are not in the form of taxes but are definite payments for value received. A man who wants a stall in a market has no objection whatever to paying a reasonable price for it. In fact he would much sooner do so than not have facilities for selling his goods. These payments therefore avoid the most objectionable feature of all taxation, viz., the unwillingness to pay. The Government trust that a real effort will be made to develop these resources not only in the financial interests of the local bodies but for the provision of increased facilities and amenities to the public.

Necessity for retaining Tolls, Defects in Assessment and Collection by Elected Bodies and ways for improving the Finances of Local Bodies.

Octroi is not levied in this Presidency. Tolls are. The amounts collected from tolls and the other taxes are compared in the statement A below. In municipalities tolls bring in over Rs. 13 lakhs and the district boards derive nearly Rs. 30 lakhs from this source. This income represents about 14 and 12 per cent respectively of the total ordinary expenditure of municipal councils and local boards. The bulk of the income is derived from tax on buildings in urban areas (municipalities and unions) and from land cess in rural areas, but few local bodies can at present afford to lose the income from tolls. In the case of municipalities in the Coimbatore district, e.g., Dharapuram, a large portion of the revenues is derived from

tolls and it will be difficult to replace tolls by another source of revenue. Taxation by tolls is an out of date method of taxation and has been for some time abandoned in most European countries except in special cases as for payment of the cost of a bridge, but it is difficult to see how the income derived, which is in most cases essential, can be otherwise provided. Statement B shows the relative income from tolls, other taxes, non-tax resources (markets, avenues, railways, etc.) and Government grants and contributions and the percentage of income from such source to the total ordinary expenditure in the case of a few typical municipalities and local boards.

2. *Assessment and collection of taxes by local bodies.*—Attention is solicited to the answer given by this department to Qs. 167 and 171 of the Taxation Committee. The fact cannot be disguised that recently the standard of collection by municipal councils has deteriorated. In the case of as many as 25 municipal councils (out of 80) the Government are at present watching the progress of collections month by month and in one case (Tiruvalur) they have already taken collection work out of the hands of the council. It is likely that the Government will have to do the same thing in regard to a few more councils this year. A comparison of the record of collection in 1923-24 with that of a decade ago shows that there has been a serious decline. In 1913-14 the councils were able to collect 96 per cent of their revenues, while in 1923-24 the collections were 82 per cent of the demand (vide paragraph 66 of the General Municipal Review for 1923-24).

Assessment of taxes also is not properly done. The Examiner of Local Fund Accounts has brought to notice several cases in which municipal councils have neglected to make proper assessments and to ensure growth of revenue (vide paragraphs 9, 11 and 13 of the Audit Report for 1922-23).

An instance of gross carelessness in assessing taxes may be found in Conjeeveram (G.Os. No. 2274, L. & M., dated 15th October 1923, and No. 1842, L. & M., dated 4th July 1924).

A note showing the ways in which the finances of local bodies may be improved is appended.

STATEMENT A.

I.—All Municipalities.

Name of tax.	Total collections in 1923-24.	Percentage of column (2) to total ordinary expenditure (Rs. 92·65 lakhs).
(1)	(2) Rs. (in lakhs)	(3)
A.—District Municipalities Act.		
(1) Property tax—		
(i) For general purposes	27·03	29
(ii) Water and drainage tax	12·02	13
(iii) Lighting tax	0·23	0·2
(iv) Railway tax	(not levied by any council).	..
(2) Tax on companies	1·49	1·6
(3) (*a*) Profession-tax	5·76	6
(*b*) Surcharge on income-tax ..	(not levied by any council).	..
(4) Tax on carriages and animals	3·46	3·7
(5) Tax on carts	1·75	1·9
(6) Tax on servants	0·10	0·1
(7) Tolls	13·46	14·5
(8) Pilgrim tax	1·11	1·2
B.—Elementary Education Act.		
(9) Education tax	1·45	1·6

II.—All Local Boards.

Name of tax.	Income in 1923–24.	Percentage of column (2) to total ordinary expenditure (Rs. 251 lakhs).
(1)	(2)	(3)
	Rs. (in lakhs)	
A.—Local Boards Act.		
(1) Land cess	86·37	34·4
(2) Companies tax	0·28	0·1
(3) Profession tax	1·98	0·8
(4) House tax in unions, including *additional* tax for water and drainage, etc.	12·89	5·1
(5) Pilgrim tax	0·17	0·7
(6) Tolls	29·89	12
B.—Elementary Education Act.		
(7) Education tax	6·54	2·6

III.—Madras Corporation.

Name of tax.	Actual collections, 1923–24.	Percentage of column (2) to total ordinary expenditure (Rs. 53·18 lakhs).
(1)	(2)	(3)
	Rs. (in lakhs)	
(1) Property tax—		
(i) For general purposes	14·18	26·7
(ii) Water and drainage tax	13·73	25·8
(iii) Lighting tax	2·02	3·8
(2) Profession and companies taxes ..	5·69	10·7
(3) Tax on carriages and animals	2·03	3·8
(4) Tax on carts	0·46	0·9
(5) Tolls	0·61	1·1
(6) Tax on timber	1·18	2·2
(7) Duty on transfer of property	0·75	1·4
(8) Education tax	(not levied.)	..

Note.—Betterment tax is not levied by the Madras Corporation or by any municipal council or local board. Some will in the next few years (e.g., Tirupati and Chittoor municipal councils).

STATEMENT B.

Statement showing the income from tolls, taxes, etc., of certain municipalities and local boards in a few districts according to the accounts for 1923–24.

Name of municipality or local board.	Total ordinary expenditure.	Ordinary income.			
		Tolls.		Taxes, excluding tolls (mainly property tax).	
		Amount.	Percentage of column (3) to column (2).	Amount.	Percentage of column (5) to column (2).
(1)	(2)	(3)	(4)	(5)	(6)
	RS.	RS.		RS.	
1. Madura	7,57,144	88,616	12	6,04,099	80
2. Trichinopoly	5,64,866	37,917	7	3,42,378	61
3. Cocanada	1,78,189	17,739	10	1,08,482	61
4. Coimbatore	2,51,909	37,963	15	1,44,781	57
5. Dharapuram	57,765	28,958	50	15,645	27
6. Mangalore	1,23,304	4,714	4	1,00,679	82
7. Cuddalore	1,42,993	27,587	19	77,373	54
8. Kurnool	1,11,449	11,565	10	49,195	44
LOCAL BOARDS.	(RUPEES IN LAKHS)	(RUPEES IN LAKHS)		(RUPEES IN LAKHS)	
1. Salem district	11·42	1·68	15	3·91	34
2. Kistna district	18·60	1·13	6	8·20	44
3. Madura district	9·17	3·51	38	7·29	79

Name of municipality or local board.	Ordinary income—*cont.*				Total income.
	Non-tax sources including fees.		Government grants and other contributions.		
	Amount.	Percentage of column (7) to column (2).	Amount.	Percentage of column (9) to column (2).	
	(7)	(8)	(9)	(10)	(11)
	RS.		RS.		RS.
1. Madura	2,18,667	29	50,334	7	9,61,716
2. Trichinopoly	2,18,195	39	16,259	3	6,14,749
3. Cocanada	53,589	30	16,998	10	1,96,808
4. Coimbatore	61,187	24	28,968	11	2,72,899
5. Dharapuram	19,797	34	3,151	5	67,551
6. Mangalore	33,787	27	14,195	12	1,53,375
7. Cuddalore	47,219	33	13,624	9	1,65,803
8. Kurnool	55,110	49	26,372	23	1,42,242
LOCAL BOARDS.	(RUPEES IN LAKHS)		(RUPEES IN LAKHS)		(RUPEES IN LAKHS)
1. Salem district	5·98	52	2·84	25	14·41
2. Kistna district	9·41	51	4·99	27	23·73
3. Madura district	2·79	30	2·62	28	16·21

Note regarding the ways in which the finances of local bodies may be improved.

An attempt is made in the following paragraphs to show how the finances of local boards and municipal councils may be improved in the near future. It is not proposed to include the case of the Corporation of Madras as it has more scope for development within the four corners of the present Act than other local bodies have.

2. The functions of local boards and municipal councils in this Presidency are more or less well defined. Under the existing enactments they can expand their services and take up more services, but lack of resources prevents many of them from doing so. Their present resources, it must be confessed, are not sufficient to maintain the services already undertaken at the standard attained by their sister bodies in other parts of the world, though comparison with such bodies in India may not show them at a disadvantage. One expects a better standard of administration from these bodies in modern days, but it looks as if the upkeep of the services even at the present indifferent state is the utmost that can be expected of local bodies. Like Government the local bodies have been affected by the rise in prices and cost of living in recent years. Cost of administration has in consequence been increased, while the revenue has not kept pace with such increase of expenditure. With the return to normal conditions, these bodies will be able to maintain their services more satisfactorily than in recent years.

3. The absence of a well-defined system governing the financial relations of local self-governing bodies with Government has been a main cause of their poor finance. It was impossible to define them in the beginning. They were first called into existence half a century ago with the primary object of affording the people a training ground in the Government of the country and gradually responsibilities were added. They functioned with the small revenues raised by them locally supplemented by large doles from Government. Municipal councils grew more rapidly and in their case disofficialization began very early. In the case of local boards officials were responsible for the administration until a decade ago. On the whole, the progress of local self-government during the last half century has been quite satisfactory though it might have been accelerated. The fact that the local bodies and the Government have at last found the need for a well-defined system to govern their mutual financial relations marks a happy land-mark in the field of local self-government. It betokens also a sense of their independence and desire for advance.

4. A committee was appointed by Government in 1920 which surveyed the possible grounds of developing the resources of local bodies and suggested measures for securing to local bodies greater financial relief than they then possessed. The time for such a committee was inopportune for two reasons. Firstly, the Local Self-Government Act had been amended a great deal providing for new sources of taxation and other revenues. The local bodies had not then fully availed themselves of the new powers of raising revenues. Any attempt to readjust the financial relations was therefore premature. Secondly, the reforms had then been introduced and the Meston award had made it difficult for Government to afford much financial relief to local bodies.

The result was that most of the main recommendations of the Committee calculated to give additional relief were not immediately accepted. The Government however were liberal to accept the main principles underlying the recommendations and have been gradually giving effect to them.

5. Uncertain doles which benefited mainly the vociferous bodies have been replaced by recurring subsidies for services classified as national or semi-national in importance. Grants for non-recurring purposes also are given, but minor works of a parochial nature are left to be financed by the local bodies themselves.

6. Before taking up the question of exploring new sources of revenue, it will not be out of place to show how the existing main services are financed.

7. Taking municipal councils first, the recurring grants received from Government fall under the first four of the following heads:—

(1) *Trunk roads.*—The Government subsidy is Rs. 1,000 a mile a year and may generally be said to be adequate to maintain them.

(2) *Elementary education.*—The relief now afforded is not based on any system, nor is it proposed to place it on any definite basis.

(3) *Secondary schools.*—At present there is no system underlying the subsidies for these schools. The Government bear either the net cost of the high school classes either in full or a portion of it in some cases, or contribute a fixed sum towards maintenance supplemented by varying grants for non-recurring purposes, the amounts of which differ according to the then finances of the local bodies and the Government.

(4) *Medical relief.*—The Government have taken over completely the district headquarter hospitals and since September 1923 a definite system of grants-in-aid has been evolved in the case of other institutions. The Government bear the entire cost of the salaries of medical officers at the headquarters of taluk stations and a fixed percentage of the pay of the medical officers in other places. In the case of certain institutions opened from 9th March 1915 the Government have agreed to bear one-half of the cost of maintenance.

(5) *Municipal health officers.*—The Government bear three-fourths of their cost while the other one-fourth is contributed by the municipal councils.

(6) *Plague.*—The cost of some measures to combat plague such as inoculation, police to guard evacuated houses, observation including the pay of plague inspectors, etc., is borne by Government and the rest by the municipal councils.

8. *District and taluk boards*—(1) *Trunk roads.*—The Government contribute Rs. 500 a mile a year and the amount is generally adequate. The allotment is insufficient where quarries are remote or the roads lie near the City of Madras or important towns.

(2) *Second-class roads.*—A maximum amount is fixed for each district and the grant is paid subject to a maximum of 50 per cent of the amount spent on the roads by the district boards. Originally this grant represented one-fourth of the land cess collected by each board. In 1913, the Government offered to contribute an additional grant equivalent to the amount of land-cess collected by local boards in excess of an one-anna rate. The Local Boards Act of 1884 permitted the boards to levy a cess for general purposes at only a maximum rate of one anna in all districts except Malabar, South Kanara and the Nilgiris where the maximum was 2 annas. The Government proposed to amend the Act to enable the boards to raise the cess to over one anna. The boards were generally averse to an enhancement and the question of amendment of the Act was dropped, but as the Malabar and South Kanara boards had raised the cess to 1½ annas and the Nilgiris District Board was already levying a rate of 2 annas the Government increased the share of these boards in the general resources grant by an amount equal to the excess cess over one anna. Subsequently in 1917-18 the total grant was fixed once for all and the share for each district was definitely fixed. From 1st April 1923 the grant has been earmarked for specific purposes, viz., upkeep of a provincial cadre of district health officers costing about Rs. 1.45 lakhs, the balance being distributed in the original proportions for maintenance of second-class roads.

(3) *Elementary education*
(4) *Secondary education.*
(5) *Medical relief.*
(6) *Plague.*

Same remarks as for municipal councils.

9. *Non-recurring grants.*—Generally, the Government do not give grants to municipal councils for purposes other than major water-supply and drainage schemes. For water-supply and drainage schemes the usual share of Government is limited to one-half of the cost of the execution of the scheme. Grants are not given for their upkeep which should be financed by the councils by raising a special water and drainage tax or from their general funds. For the construction of medical buildings or buildings for secondary schools, half-grants are paid, but at present in the case of secondary school buildings, Finance Department object to even a half-grant if the finances of the council are satisfactory. The Government occasionally help councils whose finances have been depleted by prevalence of severe epidemics, those affected severely by cyclone or floods.

10. As regards local boards, full grants are ordinarily given for bridging main lines of communication classed as trunk roads and half grants for building other important roads. Grants for medical and secondary school buildings are given on the same principles as those applying to municipal councils.

As regards water-supply and drainage schemes, grants are given only for major schemes or where definite schemes approved by sanitary authorities are put forward and the local bodies guarantee to maintain them from their funds. Compassionate grants-in-aid of general resources also are given if the boards cannot make both ends meet even after levying taxes at maximum rates.

11. The above paragraphs will show that so far as existing services are concerned the Government subsidy is on the whole limited to specific services, while the policy in regard to grants for non-recurring purposes is not uniform as between municipal councils and local boards and the financial condition of the applicant bodies is more or less the main factor in deciding on the grant of a subsidy.

12. The possibility of curtailing expenditure or rearrangement in a judicious manner of the burden of upkeep of existing services has been examined in regard to local boards and both the Government and the local bodies are taking measures to make local boards solvent with the existing resources as far as possible. As regards municipal councils, there is no danger of any financial breakdown so long as they do not neglect collection work unduly and do not grossly mismanage their services.

13. Attention may therefore be confined to the possibility of developing existing sources of revenue or of adding new sources.

14. Existing sources of revenue fall under two heads—

(1) Taxation and

(2) Non-tax sources.

The bulk of income from taxation in municipalities is derived from property tax, profession tax and tolls. Other taxes like tax on carriages, animals and carts yield a substantial revenue but not so much as the former three. In hill municipalities, a tax on servants can be levied, but it is considered an unpopular tax and the Ootacamund and Coonoor municipal councils propose to abolish it.

Tax on companies and pilgrim tax were added on by the Act of 1920 but yield a small revenue. Municipal councils can also levy in lieu of profession or companies tax, a surtax on income-tax under the new Act of 1920 but the Government of India (whose sanction is required for its levy) have declined to permit any council to do so, though they agreed to its inclusion in the existing Act, when the Bill was submitted to them for sanction. In local board areas, land cess is the main source of revenue of district and taluk boards. Next come tolls which go to district boards. Union boards mainly depend upon tax on houses. Pilgrim tax, profession and companies taxes were new taxes added on by the Act of 1920 but yield small revenues. Further, the boards find it difficult to assess and collect the companies and profession taxes as they cannot afford to employ a special establishment for the purpose.

15. It is possible to derive more revenue from the foregoing taxes within the limits laid down by the present Act or without the local bodies being unduly extortionate.

(*a*) *Property tax.*—In municipalities, the general property tax is levied at varying rates. The District Municipalities Act lays down no maximum. At present the highest rate reached is 11 per cent in Ongole and 10 per cent in nine other councils. The rest levy at rates varying from 6¼ to 9½ per cent. If all councils levy the general property tax at a flat rate of 10 per cent, then they can raise the income (Rs. 28.14 lakhs according to budgets for 1924-25) by Rs. 5.64 lakhs, i.e., by a fifth of their present income. It may be argued that a flat rate is objectionable on the ground that it limits the powers of municipal councils to levy property tax according to their needs. It may

be so. But experience shows that most councils are unwilling to raise this tax even though they are on the verge of insolvency and their attention is drawn to the possibility of saving their position by increasing this tax by even ½ or 1 per cent. It may not be objectionable to fix a minimum, say, at 8 per cent below which no municipal council can levy property tax

(*b*) *Profession tax.*—Profession tax may yield an additional income of about Rs. 27,000 if all the councils levy at the maximum rates laid down by law. This is an underestimate. This is a source of income which can very well be exploited without any serious objection. What is required is an earnest attempt to tax all persons who really make an income by some profession or other without making exceptions. It is generally the person who gets a fixed income that is now regularly taxed. Many shopkeepers and small traders escape either on account of the unwillingness on the part of the council executive to tax them or for want of proper agency to bring to book all such persons. But there is no doubt that if only the councils assess and collect the tax properly, they can add an appreciable amount to their revenues.

(*c*) *Companies tax.*—The same remarks can be applied but with less force to companies *tax also.*

(*d*) *Surcharge on income-tax.*—It is possible that the municipal councils can derive a very substantial sum if they are allowed to levy the surtax on income-tax (in lieu of profession tax on incomes of Rs. 2,400 and over) now allowed under the law.

16. As regards local boards, the main source of their income is land cess. Under the present Act, it can be levied at a maximum rate of one anna six pies, of which district boards may appropriate a cess of nine pies and taluk boards a cess of nine pies. The maximum rate has not yet been reached by all district and taluk boards. If all the boards levy the cess at maximum rates they can derive an additional revenue of Rs. 11.67 lakhs. But there seems to be no justification for prescribing any maximum for levying land cess. In the case of municipalities there is no such maximum in respect of the general property tax. The discretion may be left to the local boards subject to the approval of Government. Even here one anna six pies may be the minimum instead of the maximum. Profession and companies taxes in non-union areas are collected by taluk boards generally on payment of a commission of 5 per cent of collections to village officers. The village officers are not under the control of the taluk boards and are indifferent in properly assessing and collecting the taxes. These taxes were newly introduced in the present Act of 1920 and have not been fully tried. Some local boards have abolished the taxes after one or two years of levy on account of the difficulties of collecting the tax. Much additional revenue cannot be hoped for in the near future unless the boards systematically employ a collection staff, or Government make more efficient arrangements directly with the Revenue Department for their collection. As regards other taxes it cannot be said that they are under-assessed. It is not possible to estimate the additional revenue that may be raised by raising the rates of other taxes.

17. The non-tax resources of municipalities and local boards may generally be described as remunerative enterprises. Municipal councils get a large portion of their income from the following heads:—

(1) Markets, cart-stands, and slaughter-houses.

(2) Avenues.

(3) Licenses of various kinds.

(4) Sale of lands and rent and produce of municipal lands.

(5) Private scavenging and cess-pool fees.

(6) Sale of rubbish.

(7) Fees, fines and forfeitures, mainly magisterial fines.

(8) Charges for excess consumption of water where there is a water-supply scheme.

(9) Municipal trading.

18. (1) *Markets, cart-stands and slaughter-houses.*—It is surprising that even at the present date many municipal councils have not exploited this unfailing source of income to its fullest extent. Of all other sources this

enterprise offers the least objectionable revenue. The following councils derive an income of over Rs. 15,000 per annum from markets since 1922-23:—

(The figures are in thousands of rupees.)

Markets (1923-24).	1922-23.	1923-24.	1924-25 Revised Estimate.	1925-26 Budget Estimate.
	Rs.	Rs.	Rs.	Rs.
Trichinopoly	48	64	*	*
Madura	39	38	*	*
Ootacamund	23	28	28	29
Coonoor	25	21	26	22
Pollachi	20	20	20	21
Masulipatam	19	20	*	*
Coimbatore	18	17	*	*
Vellore	16	17	*	*
Negapatam	18	17	18	18
Cocanada	17	17	16	16
Kurnool	14	16	22	20
Erode	16	16	15	14

* No information.

It will be seen that all the above towns are important trade centres in their respective areas. Increase of revenue in their cases will follow generally the development of trade, but improvement of the conditions of the markets and the addition of facilities to the traders will no doubt bring in more revenue. The fact that other important trade centres or big towns where trade is generally very brisk like Tiruppattur, Conjeeveram, Tirupati, Tiruppur, Berhampore, Guntur, Bezwada, Ellore, Calicut, Cochin, Virudhunagar, Salem and many of the municipalities in the Vizagapatam district derive less than Rs. 15,000 shows that they have not developed these sources as well as they can. An instance of the infinite possibilities of raising substantial income from markets is afforded by the Erode municipality. In 1919-20 the council spent Rs. 5,500 on the construction of a row of shops which in the next year was let out for Rs. 6,000 a year. The income of this council from markets has quadrupled in the last quinquennium. Among municipalities which are keen in this matter may be mentioned Ellore, Coonoor and Tenali which have schemes under execution. It is possible to make the income exceed Rs. 15,000 in all the above towns and in other towns also if only the councils judiciously exploit this source. This is a most unobjectionable form of income because in this case, the person who pays a small fee for a stall in a market gets more value than he pays for in the shape of security and freedom of action.

Municipal councils have not yet begun to appreciate the value of cart-stands as a revenue-yielding asset. At present cart-stands do not yield generally more than Rs. 3,000. The income exceeds this figure only in two towns of Trichinopoly (Rs. 14,302) and Anakapalle (Rs. 4,167). As many as 24 councils (named in statement C below) do not get any income at all. As regards slaughter-houses, the position is not so bad as cart-stands. All except four councils* derive revenue from this source and in ten towns† the revenue exceeds Rs. 3,000. In regard to both cart-stands and slaughter-houses the possibilities of development are limited owing to the fact that for many towns a single cart-stand or a slaughter-house may suffice and if that is already in private hands, the councils cannot successfully put up another and have to be content with merely levying license fees on them. It will be interesting in this connection to consider the question of monopoly of markets, cart-stands and slaughter-houses by the municipal councils. It is open to councils to close private markets if they do not conform to the licensing provisions. Under the existing Act, local boards can enjoy that monopoly—vide section 180. They can have recourse to the Land Acquisition Act to acquire private markets. Similar power may be given to municipal councils, and this question may be considered as the Act is being revised.

* (1) Narasaraopet.
(2) Tellicherry.
(3) Srivillipattur.
(4) Srirangam.

† (1) Adoni.
(2) Bellary.
(3) Cocanada.
(4) Dindigul.
(5) Madura.
(6) Coonoor.
(7) Ootacamund.
(8) Salem.
(9) Palamcottah.
(10) Trichinopoly.

Taking over private markets compulsorily is a doubtful expedient and an unpopular one.

(2) *Avenues.*—Few councils are enterprising in this respect. Ootacamund heads the list of councils with an income of Rs. 10,425 from avenues. Besides the large trees in its two catchment basins, the council owns several plots of land which supply firewood. Only three other towns—Cuddalore, Kumbakonam, Mayavaram—get over Rs. 3,000, and this must be due to the fact that the councils have planted fruit-yielding trees. It is strange that in big towns like Madura and Trichinopoly the income from this source is less than Rs. 2,000. Systematic exploitation by other councils will no doubt add considerably to their revenues.

(3) *License fees.*—It is regrettable that councils do not keep an eye on this source. The fees fixed are generally low and are not promptly collected though the law requires payment in advance. The amount received under this head in all the councils in 1923-24 was Rs. 3.13 lakhs. No improvement can be expected in this direction until councils are presided over by competent and honest chairmen and they can command the services of an efficient executive staff.

(4) *Land development.*—Improvement in this direction is necessarily slow. The Town Planning Act of 1920 has not been fully availed of by many councils. When the councils have executed the schemes framed thereunder, a considerable addition to their revenues may be expected when they levy betterment contributions on the lands developed by them. At present Trichinopoly alone gets over Rs. 10,000 from rent of lands, Ootacamund comes next with Rs. 5,604.

(5) *Private scavenging and cess-pool fees.*—Under section 154 of the Madras District Municipalities Act, 1920, the fees should cover the cost of the service, but in as many as 36 councils the service worked at a loss in 1923-24. Both in the reviews on the administration reports and in the audit reports, councils are being warned that the service should be made self-supporting. Some of them have been threatened that such loss is surchargeable. Still, the improvement is quite imperceptible. With the rapid spread of education among the people of towns and with propaganda undertaken by the public health and sanitary staff, it should not be long before people recognize the advantage of this system. In the long run this is bound to become self-supporting.

(6) *Sale of rubbish.*—Here again very few municipalities have realized the possibility of raising substantial income from this source. Madura realizes a handsome income of over Rs. 44,000. Trichinopoly comes next with Rs. 25,000. Many other big and populous towns in the midst of agricultural tracts do not derive even half the income of the Trichinopoly Municipal Council. As many as fifty get less than Rs. 1,000. If only the councils will choose the right kind of lessees and take interest in the matter, it will not be difficult for each council to get not less than Rs. 5,000 a year.

(7) *Fees, fines, etc.*—This is not a source of income which can be exploited and developed. It is only in towns where the Town Nuisances Act is in force that this income can be counted. The working of the Act depends upon the police. The number of prosecutions under the Act is very few.

(8) *Charges for excess consumption of water.*—The apathy of councils in fixing meters to house connections in taking proper readings and charging for excess in time and generally in not adopting and working properly the water works by-laws is responsible for poor income. The income does not exceed Rs. 5,000 in any municipality with the exception of Trichinopoly where the credit of Rs. 18,752 is mostly due to the supply of water to the South Indian Railway. The council will lose this income the railway company completes the workshops at the Golden Rock and has its own water works installation. It remains to be seen how far the councils work the new water works by-laws adopted by them in recent years.

(9) *Municipal trading.*—Except the Ootacamund municipal council which has worked out a dairy scheme, no other council has seriously worked out concrete proposals for developing their revenues by trading. Such enterprises are possible only if the councils have the fortune to be presided over by energetic chairmen who will look ahead and carry out good schemes and the councils support him in his views, and till then no improvement can be expected.

19. In the case of local boards, the main sources of non-tax revenues are few. The important items are—

(1) Railways.
(2) Motor buses.
(3) Avenues.
(4) Licenses.
(5) Markets, cart-stands and slaughter-houses.

(1) *Railways.*—Only five district boards have working railways. Thirteen more boards levied a special railway cess for construction of railways but their schemes have not yet materialized. Under the present policy of the Government of India, it is not likely that any district board will own a railway. This source of revenue is therefore once for all closed to district boards.

(2) *Motor buses.*—It is open to district boards to engage in providing motor bus services in lieu of railways but the Ramnad District Board has not found the enterprise quite successful. Still district boards can increase their income from tolls and license fees by encouraging motor transport industry and affording facilities to private companies. Cuddapah District Board realizes an income of Rs. 5,000 from motor licenses.

(3) *Avenues.*—A comparison of the avenue receipts for some of the important boards for 1922-23 and 1923-24 shows that in 1923-24 there was a decline in revenue—vide statement D attached. The fall is evidently due to bad season in some districts and to cyclones and floods in some others. Among districts which have systematically developed avenues may be mentioned North Arcot, which was the forerunner in the field, Salem, South Arcot, Tanjore, Trichinopoly and Madura. In Madura the programme has not yet been fully worked out and when it is, the district board will be the owner of a property worth several lakhs of rupees. The Government have commended the example to other boards. It is necessary that district boards should have a well-laid out programme for planting avenue trees and employ persons who know their work. Indiscriminate expenditure should be avoided. The Chingleput District Board also has framed a scheme and it remains to be seen how it will finance it.

(4) *Licenses.*—Many of the taluk boards have not yet begun to avail themselves of the possibilities of making licenses a source of revenue. Many of the purposes for which licenses are required under the Madras Local Boards Act were added on (recently) by the Act of 1920. Owing to the existence of a provision in the District Municipalities Act enabling municipal councils to license offensive and dangerous trades within three miles of their limits, the local boards are not able to derive the full revenue possible from this source. It is proposed to amend the District Municipalities Act so as to give local boards complete powers in this respect over all their areas. Local boards and municipal councils may with advantage consider the possibilities of enhancing their revenue by (1) imposing fees for registration of sellers of particular commodities, e.g., cotton, ground-nut, gunpowder, etc., (2) compelling brokers in big towns which have markets to take out licenses on payment of fees. Cattle markets and big grain markets afford large scope for brokers.

(5) *Markets, cart-stands and slaughter-houses.*—It is difficult to compare statistics of revenue from these sources of particular local bodies as the form of accounts is such that the gross revenue in each local area cannot be ascertained easily. Taking districts as a whole, Coimbatore (Rs. 106 thousands) stands first in the field. Next comes Madura (Rs. 60 thousands).

20. From the above paragraphs, it will be seen that within the four corners of the existing Act the local bodies can expand their revenue by several lakhs of rupees.

21. In the above notes no reference has been made to the transfer annually to district boards of a share of the excise revenue which has been provided for in rule 7 of Schedule V of the Local Boards Act. The Financial Relations Committee did not recommend this transfer but suggested the levy of a surcharge on abkari revenue but the Government have declined either to transfer a portion of the excise revenue or to allow local boards to levy a surcharge on such revenue. A surcharge at one anna of the revenue on fixed rentals and tree-tax will fetch about Rs. 13 lakhs. If Government will relent and agree to either step, the revenues of local bodies will be considerably augmented.

22. *New sources of revenue.*—The Scheduled Taxes Rules framed by the Government of India under section 80 A-3 (*a*) of the Government of India Act lay down the taxes that may be imposed for purposes of local authorities. Power is reserved to the Governor-General in Council to make any addition to the list of the taxes enumerated. The following taxes are not levied by local bodies:—

(1) Tax on boats.

(2) Terminal tax.

(3) Octroi.

Item (1) does not seem to have been yet considered because this Presidency does not possess many navigable rivers. However, there seems no harm in local bodies in this Presidency being empowered to levy it.

The question of levying item (2) in the Madras city was raised at the time of passing the Act of 1919 but it was not approved by Government.

A terminal tax on timber alone is levied in Madras city. It is doubtful if a terminal tax on goods and passengers by sea or rail will find favour with the Government of India. In the pilgrim tax we have a form of the terminal tax in a small degree.

Item (3) *Octroi* has never been tried in this Presidency. It is presumed that this tax and tolls cannot be levied by the same body as otherwise the local body will be taxing the goods as well as the carriages or animals bringing them in. A former Government of Madras characterized Octroi as a pest. It is doubtful if it can be reckoned as a popular or tolerable tax in these days of free communications. It may be interesting to note that in almost all agricultural villages such a tax is being levied by the village community for the communal purposes of the village. For example in South Arcot district in the Chidambaram division it was found in some villages that whenever a ryot took out a cart-load of paddy for sale from the village, he had to pay 4 annas to the Nattamai for the village temple. No one resented to pay this tax.

23. There are a few others like taxes on vehicles and animals which are not levied by local boards, and tax on servants, the levy of which is confined to hill municipalities. It may not be practicable for local boards to assess and collect the tax on vehicles and animals in rural areas, but union boards may well be given the power to levy the tax. Tax on servants is unpopular and need not be considered. The Legislative Council has under consideration a Bill to tax entertainments. This is a tax reserved to Provincial Governments under the Scheduled Taxes Rules and the Government of India have permitted its levy by local bodies. The additional income likely to be raised from this tax is not known but it will not be an insignificant figure. A tax on advertisements and a tax on marriages may be levied in municipal areas.

	Area cultivated.	Yield in tons.
	ACRES.	
1921–22	203,088	102,740
1922–23	213,689	108,130
Normal ..	224,410	116,510
Normal yield per acre.	..	1,160 lb.

Value of tobacco exported from the Madras Presidency by sea.

	RUPEES IN LAKHS
1919–20	29·16
1920–21	14·90
1921–22	18·49
1922–23	19·76
1923–24	39·91

24. It is difficult to suggest other forms of revenue. A tax on tobacco either on the acreage under cultivation or on the manufactured product exported out of the Presidency may be feasible, but under the Scheduled Taxes Rules a tax on luxury is a provincial tax. If local bodies are to be permitted to levy the tax, the following facts will be of interest. On an average over 200,000 acres are cultivated with tobacco in the Madras Presidency. The total yield comes to over a lakh of tons. The value of the crop at an average of Rs. 1,000 a ton amounts to over ten crores of rupees. An excise duty of one per cent *ad valorem* may yield Rs. 10 lakhs. Or, if a special local cess is levied on the area cultivated with tobacco, say at Re. 1 per acre, about Rs. 2 lakhs may be obtained by local boards.

	Export of unmanufactured tobacco from British India.	
	Quantity.	Value.
1922 ..	lb. 3,934,573	£132,477
1923 ..	lb. 4,574,504	£158,693
1924 ..	lb. 8,336,298	£312,224

If the tax is levied on the tobacco exported outside the Presidency by sea, then a duty at 1 per cent of the value of tobacco exported will bring about Rs. 4 lakhs.

STATEMENT C.

List of Municipal Councils which do not get any income from cart-stands.

1. Tadpatri.	7. Conjeeveram.	13. Dindigul.	19. Negapatam.
2. Tiruppattur.	8. Chittoor.	14. Palni.	20. Tiruvallur.
3. Vaniyambadi.	9. Erode.	15. Sivakasi.	21. Palamcottah.
4. Chidambaram.	10. Pollachi.	16. Srivilliputtur.	22. Tinnevelly.
5. Villupuram.	11. Udamalpet.	17. Virudupatti.	23. Tuticorin.
6. Hospet.	12. Bodinayakanur.	18. Kumbakonam.	24. Srirangam.

STATEMENT D.

Statement showing the income of some District Boards from avenues in 1922-23 *and* 1923-24.

Name of District Board.	Income from avenues in thousands of rupees.		Name of District Board.	Income from avenues in thousands of rupees.	
	1922-23.	1923-24.		1922-23.	1923-24.
(1) Salem	100	83	(4) Tanjore ..	29	26
(2) South Arcot ..	43	38	(5) Tinnevelly ..	24	15
(3) North Arcot ..	42	36	(6) Coimbatore ..	19	15

Development of Municipal and Local Boards 'Profession and Companies' taxes—The difficulties experienced and the remedies.

The earliest mention of a tax on arts, professions, trades and callings was in the Madras Towns Improvements Act X of 1865, which enabled the Governor in Council to form any town into a municipality and to appoint Commissioners to raise funds and carry out all necessary improvements. The tax on arts, professions, trades and callings finds a place among the rates and taxes leviable under this Act, the primary object of which was to provide funds for the maintenance of the police force. The larger towns had till then contributed little towards this object, although they required a larger force for their safety than rural villages. The Government of India, therefore, urged that the monied and trading classes, who resided and carried on their business in towns, did not pay their fair share of taxation, and that owing to the number of persons congregated in a small space and the increased facilities for, and incentives to, crime, the expense of police protection was greater in towns than in the country. The Select Committee's report on the Bill which was afterwards passed into Act also points to the same conclusion. It runs as follows:—

"We have deemed it advisable to recast section XLII of the original Bill and the other sections which provide for a license tax on arts, professions, trades and callings, as well as Schedule A appended to the Bill, by omitting those provisions which require that the persons to be taxed under this part of the Bill should take out a license and by including in the schedule persons in the Civil Service or Government or of any joint-stock or other public company or trading firm. By this alteration in the description and character of the tax, we are enabled to

include within the scope of these sections of the Bill, a large class of persons whose exemption from their operation has been urged, and, as we think, with justice, as a grave defect in the original Bill and to correct what, in fact, is an anomaly in regard to some of the classes specified in the original schedule in requiring persons to take out licenses to enable them to practise professions which they have already been authorised by competent authority to practise. The cases of barristers and physicians are instances in point. We may add that *no licenses were required* under the *moturpha* tax and there does not seem to be any valid reason for requiring them in connection with the tax now proposed."

2. The tax was leviable on persons exercising in the town any art, trade or calling. These persons were divided into five classes for purposes of assessment, the annual tax payable ranging from Rs. 2 to Rs. 50.

3. Act X of 1865 was superseded by Madras Act III of 1871 and the Schedule B appended to the latter Act shows that the tax on arts, trades, etc., was understood to include the case of civil and military officers holding Government appointments and that of persons in receipt of salaries from joint-stock or other public companies or trading firms. In this Act the schedule of the tax was also modified so as to comprise eight classes varying from Re. 1 to Rs. 100 annually, instead of five classes ranging from Rs. 2 to Rs. 50 as before. The imposition of this tax appears to have been very unpopular ever since its levy under Act III of 1871.

In the beginning of the year 1873, the President of the Municipal Commission, Trichinopoly, represented that municipal institutions were not appreciated by the masses, that the taxation which accompanied them was unpalatable, and that of the taxes in force, the tax on arts, professions, trades and callings was especially unpopular. He accordingly proposed to substitute for the tax an 'octroi on all the grains consumed in the town.' It was then decided that the levy of the arts tax should be suspended in Trichinopoly; but the Government did not accept the suggestion regarding levy of 'octroi' in its stead, as it was of opinion that the 'octroi' would prove vexatious and unpopular in the extreme, and would press with especial severity on the poor, and as the question of introducing an 'octroi' was duly considered when the Act of 1871 was discussed, it was deliberately rejected.

4. The following extract from the report of the Local Self-Government Committee of 1882 gives the history of the tax up to that period:

"Though this tax is the lineal descendant and successor of the old imperial *moturpha* and as such supposed to be in accordance with native custom and feeling, it has always been perhaps the most unpopular of all the municipal taxes. In the review of the reports for the first year of its collection under the new Act, we read: 'In the municipality of Palamcotah and in those of the Tinnevelly district generally, the excitement on the introduction of the tax on trades and professions is said to have been very great, but it was allayed to a considerable extent in the former town by the commissioners permitting the various traders to apportion their own taxation within the budget limits. From the reports received, this impost appears to be more unpopular than any other amongst that portion of the community, at any rate, who have most opportunity of giving expression to their dissatisfaction. This is probably owing to the high incidence per tax-payer, to the fact that it falls as an additional impost upon those who are also called upon to pay the imperial income-tax and to the commissioners finding considerable difficulty in apportioning the amounts which each tax-payer should be called upon to pay.' To these causes might have been added the directness of its incidence and the more or less inquisitorial nature of the inquiries by which its assessment must always be preceded. In fact, it may be broadly stated that considerations similar to those which led to the abolition of the imperial income-tax, induced the Government also to direct that this tax should be held in abeyance from the beginning of 1874-75. The suspension of this tax was at first made absolute with a view to seeing whether other taxation could not be made to suffice the wants of the municipalities. It soon, however, became apparent that this policy could not be continued. The imposition of the tax on the five highest classes was permitted even in the year 1874-75 in the six towns of Gooty, Cochin, Mangalore, Negapatam, Tuticorin and Vizagapatam. In each of the following years the tax was reimposed on an ever-increasing number of towns

and was also extended to the lower classes of the schedule, until at present it is in force in 34 towns out of the whole number of 47. The imposition of the imperial license tax in 1878 which has to be paid by the same persons who pay the municipal tax, has however, increased its unpopularity and the difficulty of assessing it with strictness."

5. Act III of 1871 was superseded by the Madras Act IV of 1884 which was brought into force on 1st April 1885. The Act did not make any material alteration in the rate or character of the tax on arts. The only change which it introduced was the insertion of the words 'and on offices and appointments' in section 53 apparently to make it clear that offices and appointments were not excluded from the category of professions, trades and callings.

6. In the report on the administration of District Municipalities in the Presidency for 1885-86, the first year after the introduction of Act IV of 1884, the Government observed that for several reasons this (the tax on arts, professions, trades, etc.) was the most unpopular of the Municipal taxes, and that, although its abolition was not practicable, the Government would be glad to see its incidence lessened wherever possible by the exemption from taxation of the lowest classes of the schedule. On this, the Government of India called for a full report in regard to this tax, and a statement of the reasons why some other more popular mode of taxation could not be substituted for it, and at the same time remarked that Madras and the North-Western Provinces were the only portions of India in which a large revenue was raised by district municipalities from taxing trades. This report was furnished in paragraph 15 of the General Municipal Review for 1886-87, wherein the Government observed as follows:—

"The tax is, as remarked in last year's review, unpopular but the Government are convinced that it cannot be done away with. On the contrary, the increasing financial necessities of those towns in which it is not at present levied will probably require its extension. The common complaint against it is that it is a double of the income-tax; but the enquiry held in Trichinopoly on the occasion of a strike organized by the shopkeepers of that town as a protest against alleged excessive taxation showed that this was not the case, and that the majority of the persons assessed were not affected by the imperial impost. This, however, appears to be due in part to imperfection in the schedule and in part to bad assessment.

"If the tax were reduced or abolished the only alternative open would be to increase the tolls and as it is found that in many cases not half of the existing toll revenue is applied to roads, this would mean that the traffic from outside would be taxed for town wants. The Government consider that the lowest classes of the schedule might be excluded from the operation of the tax in some instances and if the assessments on the higher classes are properly made, this could probably be done without loss of revenue."

7. In the subsequent letter on this subject to the Government of India, dated 14th March 1888, it was further pointed out that the abolition of the profession-tax would have caused a deficit in the total municipal accounts of any one of the five years 1882-83 to 1886-87. The Government of India accepted the recommendations of the Madras Government that the removal of the tax at that time was unpracticable and, while expressing the opinion that the essential condition of its retention was a thorough revision of the method of assessment and equalization of the incidence of the tax, recommended to the Local Government to consider whether an octroi on a few articles of common consumption might not be substituted for it. In June 1889 this recommendation was referred to all municipalities for consideration and report. No less than 49 out of 54 municipalities were strongly opposed to the introduction of an octroi and the remaining five councils were not decidedly in favour of it. His Excellency the Governor in Council considered it inexpedient to initiate legislation in the direction suggested by the Government of India and reiterated his conviction that the only practicable means of augmenting the municipal revenues lay in the readjustment of the tax on arts and trades, a subject with which it was proposed to deal in connection with the revision of the District Municipalities Act, 1884.

8. In the Bill of 1897 to amend this Act the schedule of the arts tax was accordingly revised in such a manner as to minimize inequalities of incidence by adopting a uniform standard of income as the basis

of assessment. The former Act of 1884 carefully omitted all reference to income and left it to the various municipal councils to classify the trades and professions as they thought best. No doubt in making their classification, most of these bodies were guided by their estimates of income received and probably in actual practice the former rating was open to the same objection as was raised against the provisions of the amending Act. The amended Act was however wider in its application and was open more ostensibly to the objections to an income-tax as a form of raising municipal revenue.

9. The Madras District Municipalities Act, 1920, which superseded the Municipalities Act of 1884, divided persons liable to the tax into ten classes instead of nine in the old Act. In the new Act, the maximum rates of the tax were enhanced in respect of the first seven classes as shown in the following statement. It is proposed to raise the rates still further in the amending Bill now under consideration as shown in the statement below: —

Number of class as per rule 17 of Schedule IV of the Act of 1920.	Range of monthly income.	Fixed tax per annum in the Act of 1884.	Maximum tax per annum	
			In the Act of 1920.	In the amending Bill under consideration.
	Rs.	Rs.	Rs.	Rs.
I	2,000 or more	100	220	270
II	1,500—2,000	75	160	180
III	1,000—1,500	50	100	120
IV	750—1,000	25	60	70
V	500— 750	25	35	42
VI	300— 500	12	18	25
VII	200— 300	8	12	..

The rate of the tax on the lowest three classes did not undergo alteration in the Act of 1920. The tax was made leviable on income from all sources other than houses and lands inside municipal limits. The new Act split up the profession tax into (1) the tax on professions and (2) the companies' tax, on the grounds that a company does not really exercise a profession, and that the taxation of companies should be proportionate to capital or income and that on persons should be progressive.

10. Under the new Act of 1920, municipal councils were also authorized to levy a surcharge on income-tax in lieu of the tax on companies and the profession tax in respect of incomes greater than Rs. 200 per mensem with the sanction of the Local Government and the Governor-General in Council. So far, no council has been permitted to levy the surcharge.

11. The unpopularity of the tax has now worn away in urban areas in this Presidency. The tax having been levied for the last 60 years, people have become accustomed to it. The profession tax is now levied in all the municipalities in the Presidency and the total income from this source amounted to Rs. 5.75 lakhs in 1923-24. As many as 21 municipalities realize more than Rs. 10,000 a year each from this tax. The income in 1923-24 exceeded Rs. 15,000 in the following four towns:

	Rs.
(1) Madura	43,491
(2) Coimbatore	19,386
(3) Rajahmundry	18,785
(4) Guntur	18,183

12. The companies tax is levied in all except ten municipalities. The total income of all the district municipalities from this source in 1923-24 was Rs. 1.49 lakhs. The income exceeded Rs. 10,000 in only one town, viz., Coimbatore. The total of the income from the profession tax and the tax on companies of all the district municipalities amounts to nearly 8 per cent of their total ordinary expenditure. It will thus be seen that municipalities depend to no small extent on the income from these taxes and that the tax has come to stay in the municipalities in this Presidency. In 1919-20, the total number of persons assessed in all the 72 municipalities then in existence, in all of which the tax was levied, was 82,413 and the average assessment per person assessed was Rs. 4-8-1. The incidence ranged

from Rs. 7-11-8 to Rs. 2-2-1. The average assessment exceeded Rs. 7 in two municipalities, ranged between Rs. 6 and Rs. 7 in eight municipalities and between Rs. 5 and Rs. 6 in fifteen municipalities.

13. Under the existing Act of 1920, residents of municipalities are liable to the profession tax also on their income from agricultural lands situated outside municipal limits. The assessment of profession tax on agricultural income is unpopular. The Tanjore Municipal Council exempted these incomes from the tax. It has been contended that agricultural income should be exempt from the tax on the ground that there is already a fairly heavy tax on such income in the shape of land revenue. In the amending Bill now under consideration it is proposed to exempt agricultural income from liability to the profession tax. It is also proposed to legislate that the tax on companies should be levied on the 'business turnover' of companies instead of on their paid-up capital or income.

14. No special difficulty is now experienced in the levy and collection of profession tax in municipalities. It sometimes happens that in some municipalities a number of persons escape taxation and that a large percentage of assessees are underassessed. The Chairman fixes the assessment on general considerations with reference to the nature and reputed value of the business, the size and rental of the business premises, the quality of the articles dealt with and the number of persons employed and the income-tax paid to the Government. He is not entitled to call for accounts of any assessee nor has he any means of knowing accurately the amount of income-tax paid by persons, as the information collected by Income-tax Officers is treated as confidential and is not made available to him. It has been found that some municipal councils remit or reduce assessments of the chairmen very generously sometimes with a view to secure the favour of the assessees (who are all electors). These difficulties could be got over if at least in the larger municipalities special paid executive officers of the grade of Deputy Collector or Deputy Tahsildar are appointed for the assessment and collection of the taxes and the councils are deprived of the appellate powers vested in them, which should be exercised by the Revenue Divisional Officer or District Collector.

15. In local board areas the profession and companies taxes were first introduced by the Madras Local Boards Act of 1920. The profession tax may under this Act be levied in local board areas at the same rates as in municipalities, except that the minimum taxable income in local board areas Rs. 25 per cent mensem against Rs. 30 in municipalities. Unlike the practice in municipalities the salaries of persons holding public or private appointments, pensions and income from investments are exempt from the tax. The income from these taxes derived within union limits goes to the union board while that from the rest of the area goes to the taluk board.

In introducing this tax in rural areas, this Government in forwarding the Bill (which finally became the Local Boards Act of 1920) to the Government of India stated as follows:—

"There is a general complaint which the Governor in Council considers to be well founded that the burden of local taxation in rural areas is thrown too exclusively on the land and that important classes of the population such as traders, money-lenders, etc., who participate in the benefits provided by local boards do not adequately contribute towards their revenues. It has been suggested that a rural profession tax—or rather a license fee on profession—should be imposed by rural boards; but such a tax would be exceedingly difficult to assess and collect over a large area. The Governor in Council considers that the most satisfactory and equitable method to correct the inequality would be for local bodies to levy a surtax on the income-tax . . . . ."

The Government of India did not approve of the levy of surtax on income-tax. The Select Committee which considered the Bill substituted a companies tax and a profession tax in place of the surcharge on income-tax.

16. In 1923-24 only 59 out of the 126 taluk boards in the Presidency levied the profession tax and the total income derived was Rs. 1.24 lakhs. The income exceeded Rs. 5,000 only in seven taluk boards and in no taluk board did the income exceed Rs. 10,500. There are hardly any companies in non-union areas. Only 19 taluk boards realized an income from this tax in 1923-24 and the total income realized was Rs. 10,800. The total income derived by the union boards from the profession tax in 1923-24 was

Rs. 74,000 and that from the companies tax Rs. 17,500. It cannot be said that the amounts realized represent the tax payable by all persons and companies liable to pay the tax under the Act.

17. The area of most of the taluk boards is large extending to over 1,500 square miles in some cases. As already stated the income of individual taluk boards from these taxes is small and taluk boards cannot afford to employ an efficient peripatetic staff for assessing and collecting these taxes. The cost of establishment would swallow a very large percentage of the income from the taxes. The boards were advised to entrust the work of drawing up lists of persons liable to these taxes and of collecting the taxes to village officers on payment of a commission of 5 per cent of the collections. Most bodies have adopted this agency. Village officers, however, do not prepare exhaustive lists or collect the amounts due from the assessee. They are not the servants of the taluk boards and considerable difficulty is experienced in getting work done by them, as the 5 per cent commission has not in practice proved attractive.

In view of all these difficulties, some of the taluk boards which at first levied the taxes have since decided to abolish them. Matters might considerably improve if the work of assessment and collection was entrusted to the Revenue Department. But the Revenue Department will not probably be willing to undertake the duty with their present establishment, nor is it perhaps desirable to transfer this duty to them. The most they might be willing to do would be to lend officers for the duty, and undertake the exercise of appellate powers. An alternative is a surcharge on income-tax. The Government of India has once before definitely refused to allow the levy of the surtax in local board areas and it seems doubtful if they will reconsider their decision. Owing to the difficulties of assessment and collection, these taxes in local board areas have not had a fair trial.

18. The case is different in union boards. Union boards employ bill-collectors for collecting the house tax, and this agency can be utilized for the assessment and collection of the profession and companies taxes. The area under the jurisdiction of each board is small and compact and the members of the board are likely to have fairly reliable information as to the income of the residents in the area. As already stated, the income from the profession tax in unions was Rs. .74 lakh and from the companies tax Rs. .175 lakh in 1923-24. No special difficulties in regard to the assessment and collection of these taxes in unions have been brought to notice.

Motor bus Services.

Motor bus services are at present generally unlimited and running in competition with each other and pay to the local board a fee at so much per mile of their run. It is doubtful whether under this arrangement the public secure the best and safest service and the local board the greatest revenue. If a car breaks down and ceases to run for some days, the public service is diminished and the local board's fees reduced. Such breakdowns are frequent in the cars owned by small and inexperienced owners who are likely to employ inefficient drivers and fail to see to the proper maintenance of their vehicles. The remedy appears to be to lay down conditions for each run as regards service in every particular—number and seating capacity of cars running and in reserve, horse-power (minimum), tyres, timings, fares, etc., and dispose of each run by auction or tender. Penal clauses would be provided in an agreement for failure in any particular. This would secure to the public a reliable and sufficient service which would not be driven to dangerous expedients by competition and to the local board the full competitive price for the use of its roads.

Abolition of Tolls.

Toll revenue goes to two authorities—district boards and municipalities. Both kinds of tolls cause considerable inconvenience to traders and travellers and may give rise to a certain amount of oppression by toll-gate keepers. The amount paid in tolls does not all go to the local authorities, but a considerable percentage remains with the toll contractor. These and other considerations have long ago led to the abolition of tolls (practically complete) in most civilized countries. It is not, I think, right to say that India has not yet reached the degree of civilization at which tolls can be abolished. On the other hand Government and local authorities maintain an immense mileage of trunk and district roads which are increasingly used

by wheeled traffic of all kinds, carrying produce and almost every article of commerce as well as passengers. The improvement of railway facilities has not in the past decreased road traffic on the whole and is not likely to do so in future, but if there is thought to be any chance of its causing a perceptible decrease, that is one more reason for local authorities finding an alternative source of revenue instead of tolls.

2. Municipal toll-gates being comparatively few, and the tolls not being paid by vehicles licensed in the particular municipalities, cause comparatively less inconvenience, while they form a definite source of income specifically applied (in part) to maintenance of municipal roads. For the present, municipal tolls can be left alone. It is possible that with the experience of alternative courses proposed, these may also be abolished after some time.

3. Supposing it is conceded that the time has come to abolish tolls on extra municipal roads, it remains to be seen how an expanding source of revenue for local boards can be secured to counterbalance the loss of toll revenue, while avoiding as far as possible unfair incidence of taxation.

4. In local board areas the chief sources of toll revenue are carts, motor cars, motor cycles, cycles, animals, etc. Motor cars and cycles except those plying for hire, heavy vehicles exceeding two tons in weight unladen, and light vehicles with a trailer attached to them pay no annual fees at all unless they happen to be owned in a municipality. In Madras a four-seater car pays Rs. 70 and a motor cycle Rs. 30 a year—in district municipalities Rs. 50 and Rs. 30 or Rs. 20. These fees are low compared to those payable in Great Britain where a car of 15 horse-power pays £15 or Rs. 225.

5. The carts that pass through local board tolls are mostly either carts owned by agriculturists and used to transport their produce or families or carts owned by traders carrying imports or exports or other articles of commerce. The carts of the former class may roughly be taken to use roads (in cart-miles) proportionately to the land belonging to their owners while the cart-miles of the latter class may be similarly taken as proportional to their owner's business or property. It will be normally fair to both classes to substitute for the tolls paid an increase in land cess and in profession, property and house tax.

6. The toll revenue of district boards is roughly Rs. 27 lakhs (excluding toll contribution from municipal councils of 2.41 lakhs). Land cess is 85 lakhs, property tax and profession tax in municipalities and house tax in unions is 46 lakhs. If two pies is added to the land cess and the other taxes named are raised by 10 per cent, local bodies should receive additional income of Rs. 10.5 lakhs and Rs. 4.6 lakhs or a total income of Rs. 15.1 lakhs. There are over 1,000,000 carts. So this is equivalent to only 1.5 rupee for each cart. This leaves Rs. 11.9 lakhs to be secured by increased taxation on motor vehicles, and cycles, and horse vehicles, for animals do not use roads to a great extent and can be neglected. There are 12,268 motor vehicles, so that even disregarding everything but motor vehicles 11.9 lakhs requires an addition of only an average of Rs. 100 for each vehicle, in addition to any municipal tax already paid, or slightly less if the tax on push-bicycles, *jutkas*, etc., is increased. It may be necessary to leave out of account taxis and motor buses plying only within Madras Corporation limits. The number of the former is 127 and of the latter 82.

7. The enhanced fees and taxes paid would not in general correspond entirely to tolls in the local areas where the fees and taxes accrue. A cart paying fees in municipality A situated in local board area B may use roads in local board areas C, D, E, etc. Similarly for carts and other vehicles.

8. It is necessary to suggest a plan on which such fees and taxes should be distributed. The addition to taxes in municipalities and unions and to license fees in municipalities and the newly-imposed license fees on non-municipal areas will be credited to a central fund under the control of the Local Self-Government Department. From this fund local boards must be compensated for loss of tolls by payment of their average toll revenue. This is likely to leave a surplus in the fund which could be distributed either in proportion to the toll revenue or according to the actual expenditure on communications or at the discretion of the Local Self-Government. The greater part of the surplus would probably be spent by distribution in proportion to actual expenditure on communications leaving a lump sum for discretionary grants.

Mr. Cotterell gave oral evidence as follows :—

The President. Q.—You are Secretary in the Local Self-Government Department?

A.—Yes, I only took charge at the end of March.

Q.—Your department has sent us three notes, one as general answers to the questionnaire, one on tolls and other matters, and one on the development of profession and companies' taxes.

A.—Yes.

Q.—Do they represent the views of the Ministry or those of the Secretaries to Government?

A.—The answers by Mr. Moore represent the views of the Ministry. I don't think the others have been seen by the Minister.

Sir Percy Thompson. Q.—Let us take the first note. In answer to Q. 107 you suggest that the following taxes should be assigned to local authorities: tax on advertisements, tax on amusements and stamp duty other than duties of which the amount is fixed by Indian legislation. Would there not be a difficulty in regard to stamps on commercial transactions in that there would be two competing local authorities?

A.—I discussed that with Mr. Moore: he only meant a surtax on stamp duty.

Q.—Even then it seems to me that there is a difficulty. Suppose you had a document which was executed in one municipality, but related to a matter in another municipality, would not both the municipalities claim the surtax?

A.—Probably they would.

Q.—Are you going to have a special stamp? Suppose a document relates entirely to Madras and the man buys a stamp in Ootacamund, the latter place would be getting the benefit of it. It seems to me that unless you have a special stamp the real proceeds will not be allocated to the proper authority.

A.—If you mean that the tax will have to go to the place in which the stamp is bought, I think it would be a difficult matter to work.

The President. Q.—Is there any difficulty with the stamp duty at present collected on transfers of property in Madras?

A.—Not that I know of: it purely applies to the Corporation.

Sir Percy Thompson. Q.—Take, for instance, transfers of property in Madras: do I use one of the ordinary general stamps which I can buy anywhere?

A.—I am afraid I can't answer that.

Dr. Paranjpye. Q.—In answer to the same question, you suggest a surcharge on excise revenue. If you sell a license by auction, you pitch the rate as high as possible: if therefore you have a surcharge on excise revenue, it would only mean so much revenue less to Government as the shops will sell for so much less?

A.—I do not think I should be in favour of it. I do not know if Mr. Moore actually recommends it. He says that the Financial Relations Committee recommended that local bodies should be empowered to levy a surcharge on excise revenue and that it seems preferable to permit local boards to levy it. I do not think he was really in favour of it. There is a great difficulty about accounting there, because the trees would be in various parts of the country and you don't know to which local body the surcharge would go.

Q.—Obviously a liquor shop in a municipal area would serve the interest of a lot of outside people but the municipality would claim the whole.

A.—Quite so: I don't think it is a workable scheme.

The President. Q.—It has been suggested many a time that you should give the municipalities the license fees and they would then not be so anxious to shut down shops.

A.—I have heard of it. There was a suggestion somewhere that a percentage of the abkari fixed fees should be paid.

The Maharajadhiraja Bahadur of Burdwan. Q.—In reply to Q. 107, you say that certain taxes now included in Schedule I of the Scheduled Taxes Rules and assigned to Local Governments should be transferred to Schedule II. I suppose you mean by this that the proceeds of those taxes should go to municipalities?

A.—Yes: Schedule II relates to taxes which can be transferred to local bodies: Schedule I is provincial taxation.

Q.—If you did that, do you think that the local bodies would be in a position to impose or not to impose those taxes as they like?

A.—Yes.

Q.—Do you think that in your province a tax on amusements would very largely fall on European forms of amusement, e.g., theatres, races? Do you think that any racial question would crop up or that a municipality would tax English amusements more than Indian amusements and from that point of view, don't you think that it would be fairer and better to have such taxes in the hands of the Local Government in Schedule I, so that the Local Government may make over the proceeds of such taxes to the local bodies?

A.—I don't think there would be much racial question, because there are very few Europeans in this Presidency except in Madras: and cinemas, theatres and circuses are fairly frequent only in larger towns. Even in Madras the races are attended by thousands of Indians and hundreds of Europeans.

Q.—Do you think it is quite safe to transfer it from Schedule I to Schedule II?

A.—I don't see any objection on the grounds you have indicated.

Dr. Paranjpye. Q.—Have you any example of a local tax which has been so arranged as to hit a particular community more than another?

A.—I can't think of any instance.

Q.—So far as we can judge by what has taken place, there is no reason to expect any such racial discrimination in the taxation policy of the future.

A.—Municipal and local board taxes have so little to do with Europeans that I do not think there is any reason to expect that there would be any discrimination.

The President. Q.—I suppose that it is possible that a vegetarian community might tax slaughter houses out of existence.

A.—They might try to close them.

Dr. Paranjpye. Q.—After all, vegetarians are comparatively few, and there are few people who are restricted to vegetables by their religious customs.

A.—That is not so in the Madras Presidency.

Q.—They are vegetarians by practice, but not by religion.

A.—I think they would lose their caste if they ate mutton.

Q.—Not the non-Brahmins?

A.—I think they would. The Hindus won't touch beef or mutton except the lowest castes.

Q.—You say you want to omit the words "save where such tax is first imposed in a local area in which an octroi was not first levied on or before the 6th July 1917" against item 8 in Schedule II. You can now apparently levy an octroi where you like, but you cannot levy a terminal tax unless you have previously had an octroi.

A.—That is so.

Q.—I have an idea that you proposed a terminal tax, but the Government of India refused to accept the proposal.

A.—It is not within my knowledge.

Sir Percy Thompson. Q.—Your reply to Q. 111. I think you would agree that tolls are objectionable and should be avoided if possible.

A.—I certainly do. I prepared a note for the Local Advisory Committee on the abolition of tolls. I would like to hand that note over to the Committee.

Dr. Paranjpye. Q.—By what would you replace tolls?

A.—Local board tolls come to about 40 lakhs. Municipal tolls are free to municipal vehicles: leaving municipal tolls alone, which amount to about 13 lakhs, the other tolls are paid by carts, jutkas, cars and bicycles. You could increase the license fee on cars which now pay from Rs. 50 to Rs. 70.

The President. Q.—Under what Act?

A.—Under the Municipal laws.

Q.—How will that help you?

A.—You will have to put on a surcharge. All cars which use district roads pay a fee to the municipality, which is a municipal license fee. It is very inadequate, as compared with European motor car fees.

Q.—They also pay a registration fee.

A.—That is once in a lifetime.

Q.—And they pay a special fee for plying for hire?

A.—Yes.

Q.—Would it not be possible to have a provincial fee instead of that?

A.—It would be practically a provincial fee.

Q.—The whole of that would be earmarked for roads?

A.—I believe in England it goes to the Road Board.

Q.—Can't you do that under the Motor Vehicles Act without further legislation?

A.—I imagine you can; you would have to constitute a Road Board.

Q.—You have a Road Board.

A.—It does not operate to my knowledge. I put it before the Advisory Committee, but they considered that it would be very hard to abolish tolls for carts. It is quite true that the toll is actually paid for something used: you use a road and pay a toll.

Q.—Is there any difficulty in distinguishing between a farmer's cart and the regular carrier's cart?

A.—I propose to put a small addition to the land cess for the agriculturists and people who live in the rural parts and to put an addition to house tax in unions and profession tax in municipalities for people living in towns, say, 10 per cent: these two, with the addition to motor fees, would cover the whole of the revenue from tolls and would be an expanding revenue.

Q.—Wouldn't a man running a transport service establish his headquarters outside a union and pay nothing to anybody?

A.—He might: it is very difficult to get a complete scheme. I think there would be opposition to raising land cess and profession tax at present. I don't think that cartmen mind these tolls so much as people who are accustomed to travel by motor.

Sir Percy Thompson. Q.—You have a duty of Rs. 50 on motor cars at present: suppose you put a surtax of Rs. 20, would Madras town get any advantage out of it?

A.—Actually in Madras town the license fee is Rs. 70, you have to raise it by about Rs. 85 or Rs. 100.

Q.—Would that Rs. 85 go to the local boards outside Madras?

A.—It will be pooled: there will be a Road Board which will do the whole work. In addition, there are a certain number of cars owned by planters who do not live in municipalities at all. They would have to pay to a central fund under the control of the Self-Government Department or the Road Board. Local boards must be compensated for loss of tolls. You would have to have some sort of organization which would distribute the funds.

Q.—Would you let us have copies of your scheme?

A.—By all means, but it is a very rough scheme.

Q.—In reply to Q. 112, you say that in the case of local boards the tax on houses and land cess are payable by the owner or the occupier. How is that?

A.—They come down on the occupier if the owner does not pay.

Q.—Can he recoup himself?

A.—I imagine he can deduct it from his rent.

Dr. Hyder. Q.—What is the point in the next sentence? You say, "The owner can always shift the burden of the tax to the occupier." If that is so, there is no point in what goes before.

A.—What is meant is that he puts up the rent.

Q.—If the occupier pays it, does he deduct it from the rent?

A.—Yes; suppose the rent is Rs. 500 and the tax is Rs. 50. The occupier can pay Rs. 450 as rent and Rs. 50 as tax.

The Maharajadhiraja Bahadur of Burdwan. Q.—Very often it is the owner that pays.

A.—I do not know. I have no actual experience of collecting it.

Sir Percy Thompson. Q.—In most of the other provinces there is a provision specially authorising the occupier to deduct it from the rent. That is not in the Madras Act?

A.—It does not seem to be so in Madras.

Q.—With regard to Q. 115 you say, "The municipal council should have the power of rating land according to its annual value"?

A.—Yes; I think the Government fixes the ground rent of the land.

Q.—I think it is the President of the Council.

A.—It may be in the Madras city. But in the case of mofussil municipalities, the Collector fixes the ground rent. I think they must have the power to rate it.

Q.—To exempt improvements is rather a novelty. If a man built a house on a piece of land, it should not be rated on the house and land but only on the value of the land?

A.—Yes.

Q.—Then it is stated, "The tax on urban lands should go entirely to municipal revenues instead of partly to Government and partly to councils as at present in this province". Ground rent is what the Government charge for the use of the Government land.

A.—They pay every municipality a fixed amount which is a sort of stabilized revenue.

Q.—It is for property actually belonging to the Government?

A.—Yes.

Q.—They are the owners of it?

A.—Yes.

Q.—Obviously they charge a rent.

A.—They only retain what they would get for that land as agricultural land.

Q.—But surely it is not a tax. It is a voluntary payment.

A.—Yes. It is really the rent for the land. But the idea is that the value of the land is due to the presence of the municipality—to the existence of the town. If there was no municipality, the Government would only get their agricultural revenue and so they say, "Owing to the presence of the municipality the value of the land is increased and we pay over the difference to the municipality".

Q.—Have you thought at all how you would tax unearned increment?

A.—No; I have not thought of it.

Q.—It has rather a disastrous history in other countries.

Dr. Hyder.—If it was a failure in England, it is successful in other countries, e.g., Germany.

Sir Percy Thompson.—They have not attempted in Germany to tax the unearned increment in land.

Dr. Hyder.—I think in the cities they have it. The majority of German towns have it.

Sir Percy Thompson.—I don't think that in Germany it relates to the site value of the land.

Dr. Hyder.—What is the difference between the two?

Sir Percy Thompson.—For instance, the value of buildings in England has enormously increased since the War, whereas the value of the site may not have increased by a penny-piece. Suppose you bought a piece of land in 1912 for Rs. 500 and you built a house which cost you Rs. 500 and you sold it for Rs. 1,000, and the whole thing is now worth Rs. 2,500. But you would probably find that the value of the land has not increased a bit, but only the cost of building, owing to the scarcity of labour, etc., which has gone up. It is not an increment in the land value but an increment in the value of the bricks and mortar.

Q.—With regard to Q. 116 you say, "The tax on companies should be levied on net income instead of on the paid-up capital, gross profits or business turnover." Does it not, in fact, come to this: if you can show that the profits of the branch in that particular municipality did not exceed a certain sum the tax is reduced and the reduced tax amounts to about 2½ per cent on the profits?

A.—Yes. I do not see what else you have to tax fairly except the profits.

Q.—In reply to Q. 117, you say, "Cost of national services like trunk roads and hospitals at headquarters should be contributed wholly by Government". Do the Government at present not bear the cost of maintenance of trunk roads?

A.—They bear the cost up to a certain maximum.

Q.—They give the money to the local authority and the local authority does the work?

A.—The local authority does it and the Government gives the cost.

Q.—I think you say, generally speaking, those subsidies are sufficient. Why then are the roads so bad?

A.—The grants are sufficient for maintenance, but not for reconstruction.

The President. Q.—Do you admit that the roads are bad?

A.—I admit they are bad.

Dr. Hyder. Q.—You classify the roads into trunk roads and second-class roads?

A.—Yes.

Q.—Does the Government contribute anything towards the maintenance and construction of these second-class roads?

A.—It contributes half, provided it is within the maximum allotted. That is, there is a lump sum allocated for all the districts and up to the maximum of that sum the local bodies can get half on second-class roads.

Q.—Did you have any trouble with the roads at the time of the Moplah outbreak?

A.—I do not think there was any on account of that. But there was some trouble owing to the floods.

Q.—I cannot see the logical distinction that is made between the trunk roads and the second-class roads. You class the trunk roads as roads that ought to be there. But from the point of view of law and order, I think you have got to pay much greater attention to these second class roads.

A.—I think the main roads are required more for the Government than the side roads and it is the local bodies that require the side roads.

The Maharajadhiraja Bahadur of Burdwan. Q.—In Bengal the practice is this. Take the Grand Trunk road, for instance, which runs from Calcutta right up to the Punjab. That road, even though it passes through several municipalities, is maintained by the Government in the Public Works Department and is kept up as a sort of imperial highway. You have no such system here?

A.—I think the only road of that sort here is the road to Ootacamund and also perhaps the road to Kodaikanal.

Sir Percy Thompson. Q.—Is there any suggestion that this money is not really spent by the Councils?

A.—I think there have been such suggestions.

Q.—They apply the money to the general revenues?

A.—No; the allegation is that it goes to the pockets of the subordinates. Of course, any one can easily make a charge of that kind; but I do not suppose there is any foundation for it.

Q.—In page 295 of your memorandum you say, "The Government contribute Rs. 500 a mile a year and the amount is generally adequate". I think you ought to say that the roads ought to be kept in a good condition.

A.—I think that amount is generally adequate for the maintenance of the roads. But many roads are in such a bad condition that they require more than repairing; they require remaking. The amount given is for maintenance. But a lump sum will have to be given to bring the roads to perfect order.

The President. Q.—With regard to Qs. 167 and 171 you say, "So far as assessment by local bodies is concerned, the experience in recent years has been that the taxes are not properly assessed or collected". What do you attribute that to?

A.—I think the assessment and collection is done by people directly or indirectly dependent on the votes of the assessees.

Dr. Hyder. Q.—You say, "In 1913-14 the Councils were able to collect 96 per cent of their revenues while in 1923-24 the collections were 82 per cent of the demand". What has happened between these two dates?

A.—A great many things had happened. There was the War.

Q.—That can have no effect on the collections.

A.—I do not pretend to give any explanation. I simply give the fact that the collections have gone down by 14 per cent.

Q.—In 1913-14, those people who formed the municipal administration—those elected people—were dependent on the votes of the people. Is it not so?

A.—I really have not much recollection of municipal facts of those times.

Q.—I understood you to say that these people in 1923-24 were more dependent on the votes of the assessees. That was precisely the same even before.

A.—But they were under more control then. The Government controlled them more. I think the Divisional Officer was generally the Chairman. Government did not give them such a free hand then.

Q.—Does not your department interfere?

A.—We make protests and give advice and recommendations and only say "We will do certain things if you don't do certain things". But I do not think we have very much control now. In certain cases where collections are very bad, we appoint a man to collect and make the municipality pay for it. That is the extreme step we have taken in one or two cases. We generally threaten.

The President. Q.—Ten years ago you did not go so far?

A.—No.

Sir Percy Thompson. Q.—In paragraph 10 of the notes on page 305 you say, "Under the new Act of 1920, municipal councils were also authorized to levy a surcharge on income-tax". That is the Madras Corporation law at present?

A.—Yes.

Q.—Then you say, "So far, no council has been permitted to levy the surcharge". Is it because the Governor-General in Council refused permission?

A.—I do not know whether it is the Governor-General or the Governor. I rather fancy it is the Madras Government. But I am not sure.

Q.—I do not quite follow the last sub-paragraph of paragraph 15 on page 306. You say, "The Government of India did not approve of the levy of surtax on income-tax". There seems to be some conflict there.

A.—They are two different Acts. One is the Municipal Act and the other is the Local Boards Act.

Q.—Do I gather that in the case of municipalities, the Government of India do not object and in the case of local boards, they object to the principle altogether?

A.—Yes.

Q.—Do you know what is in the mind of the Government in refusing to allow it?

A.—It might be that they are jealous of imperial taxation as against provincial taxation.

Q.—Your general conclusion is that you should take assessment and collection out of the hands of local authorities and leave it in the hands of unprejudiced persons in the service of the Local Government?

A.—Yes.

Q.—You say that the Revenue department will probably not be willing to do it. Will there be any objection if you increase the establishment?

A.—No. They already do a great deal for these municipalities.

Q.—Suppose it was the view of the Local Government that these taxes were badly assessed and badly collected and they really ought to be done by some unbiassed persons. Would they object to it as a matter of principle?

A.—I do not think there is any question of principle at all.

Dr. Hyder. Q.—You say that in the case of the Dharapuram Municipality, "A large portion of the revenues is derived from tolls, and the collection from tolls comes to nearly 50 per cent of the income". Is it a very large municipal area?

A.—I have not been there many years. I do not think it is a very large one.

Q.—It seems to me that you have got a number of municipalities here and they do not have many resources, the only resource open to them, apart from the local rates, being the tolls?

A.—Yes.

Dr. Paranjpye. Q.—Is Dharapuram a pilgrim centre?

A.—No; but I think it is on the way to Palni which is a place of pilgrimage.

The President. Q.—Is it not a cotton centre?

A.—Yes; I think so. There is one other suggestion besides tolls. That is about motor bus services. The motor bus services at present are unlimited and run in competition with each other and pay to the local boards a fee at so much per mile. It is doubtful whether the public secures the best and safest service and the local body gets its full revenue. If a car breaks down the public service is diminished and the local body's revenue reduced. Such cases occur frequently. The remedy appears to be to lay down conditions for the traffic regarding the service in that particular area, the number, seating capacity, horse-power, timings, etc. That is, you should get the full value of the service and also the proper service. And you could insist on the best possible service if you have a monopoly disposed of by auction.

The President. Q.—There is a good deal of legal controversy on the matter?

A.—Yes.

Q.—Do you recommend legislation, if necessary?

A.—I think I should.

Q.—Can you tell us if any municipality has worked a betterment tax?

A.—I think it has been worked in the Mambalam scheme. I have not heard of any other case. I have not had any experience myself.

Q.—Could you look into the records and let us have a note?

A.—Yes.

Q.—You say, "The tax on arts, professions, trades and callings finds a place among the rates and taxes leviable under this Act, the primary object of which was to provide funds for the maintenance of the police force". Is it recognized that the local bodies have any responsibility to maintain the police force?

A.—No. I do not think there is any.

Q.—You say, "The Chairman is not entitled to call for accounts of any assessee, nor has he any means of knowing accurately the amount of income-tax paid by persons, as the information collected by income-tax officers is treated as confidential and is not made available to him". On the other hand, under your City Municipal Act there is a distinct provision that the assessment should be based on the income-tax books.

A.—I suppose under the provisions of the Act there is some ruling, but I have not got any information.

Q.—You say that profession tax in taluk board areas is entrusted to village officers on payment of a commission of 5 per cent of the collections and you think that is not good enough?

A.—Yes. The village officers will not do it, because the commission paid to them is not attractive.

Q.—Now you are proposing to entrust the work to the revenue officers?

A.—Well, I am not sure about it.

Q.—Then how do you propose to get over the difficulty?

A.—Only by continuing the present system.

Q.—Does it not result in the ryot paying and the money-lenders escaping?

A.—Yes.

Q.—Would there be any difficulty in entrusting it to the revenue inspectors?

A.—I think it can be done, but it will be too much to add to the work of the revenue officials. I think if the work is going to be big enough, you will have to employ a separate staff for it.

Q.—If it is under the control of the tahsildar, it will help considerably?

A.—Yes. I know in many cases the local bodies had to give it up entirely as they could not collect it.

Sir Percy Thompson. Q.—I think the amending Bill under consideration is proposing to exempt the agriculturists.

A.—I think so.

The President. Q.—What is the number of unions in this Presidency?

A.—I think the number of municipalities is 81, and the number of unions must be double or more than that.

Q.—No. I think it is stated in the report that it fell from 578 to 548.

A.—I see.

Q.—You say in 36 councils the private scavenging worked at a loss. Do you make it compulsory?

A.—We only say that we will surcharge them for the expenses which we do not consider justifiable. We simply threaten to do it. As a matter of fact, we have not done it so far.

Q.—You suspect that many of the taluk boards have not yet begun to avail themselves of the possibilities of making licenses a source of revenue, and therefore you propose to amend the present Act so as to give power to the local bodies and municipalities to enhance their revenue by imposing fees for registration of sellers of particular commodities, e.g., cotton,

groundnut, gunpowder, etc., and compelling brokers in big towns which have markets to take out licenses on payment of fees. That would be an alternative to the profession tax. If you can do that, can't you get those people under the profession tax?

A.—I think that would be in addition to the profession tax.

Q.—Would it not be within the power of the board to levy profession tax. I mean, is not profession tax sufficiently elastic?

A.—Presumably they are charging profession tax on income which includes profits they are making on these. In addition they want to charge license fees.

Q.—You say that the question of levying terminal tax for the Madras City was raised at the time of passing the Act of 1919, but it was not approved by Government. And you say that it is doubtful if a terminal tax on goods and passengers by sea or rail will find favour with the Government of India. Have you any reason to think that?

A.—I do not know really much about terminal tax.

Q.—Terminal tax is an octroi without refunds. Practically you have got terminal tax on timber in the city. I think you are asking for a terminal tax on passengers, like a pilgrim tax. I do not think the Government of India will object to it.

A.—I do not think so.

Q.—Then I see Mr. Md. Zindah suggests a tax on marriages.

A.—I see.

Dr. Hyder. Q.—I want to ask you whether the tax on marriages would have any political reaction. The point is whether people would begin to say that Government is interfering with their sacred institutions?

A.—I should like to know whether the registration would be optional or compulsory.

Q.—In the Punjab where it is in operation it is optional.

A.—Do people take advantage of it?

Q.—You see, there are a number of disputes about women and then murders are committed, in such cases the fact of the marriage having been registered is *prima facie* evidence.

A.—Personally, I do not think it will be a very popular tax. I do not know if it will result in any rioting in this province, but I am quite sure that it will be felt as a piece of injustice.

Mr. J. A. SALDANHA, B.A., LL.B., M.L.C., Madras, was next examined.

Written memorandum of Mr. Saldanha.

Qs. 131 to 145. *Succession duty.*—I am strongly in favour of making succession duties universal in India, extending them to beneficiaries as a result of survivorship in case of joint families by taxing only the share of the deceased, as well as his separate property. The limit for levying the tax should, in my opinion, be fixed as at present. As the duty is to be made universal it will have to be considerably reduced. I presume that the duty will have to be levied in case of testamentary succession as well as intestate succession, the letters of administration and probates being made compulsory in all cases. In case of survivorship a modified system of letters of administration will have to be introduced.

Another serious difficulty that will have to be faced is as to the courts by which probates and letters will have to be given. The present number of Civil Courts with their elaborate technical procedure will not be able to cope with the increased work. Except as to points of disputed succession or survivorship, I would propose a separate set of courts somewhat on the lines of revenue courts with a summary procedure to deal with questions

of letters of administration, probates, and succession duties. At the present stage I cannot advocate a legacy duty according to scales of relationship. The levy should be on the capital value of the estate of the deceased.

Capital levy.—The mention of the capital levy makes me suggest the valuation of all properties periodically, say, once in ten years, and the levy of a duty on the whole for meeting expenditure of an exceptional nature arising out of floods, famine, and war. In such cases, I would prefer to have recourse to capital levy rather than borrowing in the open market, or increase of taxes on necessaries of life, such as salt. The point has not been raised in the questions printed, but the capital levy enforced when the property passes (a) from the dead to the living, (b) from the living to the living; and the suggestion of it in connection with question of joint families in Q. 141 (3) has set me wondering why the idea of capital levy should not be extended.

Qs. 121 to 136. *Tobacco-tax.*—As to fields in which tobacco is cultivated at present a revenue assessment is levied as in the case of other cultivated lands, but further tax should be levied when tobacco leaves enter into a manufacturing or industrial stage. For this purpose I would advocate the means of levying tax suggested in Q. 122 (3) or in the alternative Q. 122 (5).

Qs. 96 to 104. *Land revenue.*—I would abolish the present system of land revenue by periodical settlements and substitute in its place a direct income-tax by ascertaining in case of peasant proprietors without tenants the gross produce in kind and deducting a certain percentage of the gross produce, say, 10 per cent as was done in ancient times according to the Hindu Dharma Shastras and realizing the market value of it in cash. This gross produce could be ascertained annually by insisting upon the ryots to keep accurate accounts to be checked by the village officers or by getting the ryots to afford facilities to the village officers to ascertain the produce. In case of landlords who derive their land income by rent, the income-tax should be levied on the rent.

As to the land itself a small quitrent of an uniform character should be levied according to area from its occupant without regard to cultivation.

Qs. 62 *et seq. Excise on liquors.*—The only alternative to the national claim for total prohibition should be a national industrial excise policy, so that there be free production of decent liquor subject to excise duty as in Great Britain of every material available including *kaju*, pine-apples, potatoes, and grapes, on the lines followed in the Mysore State. The import duty on foreign liquors should be higher than the excise in Great Britain and other European countries exporting liquors as well as in India.

Salt.—The aim should be to produce the best salt possible, and levy heavy import duties on foreign imported salt including that brought as ballast.

Mr. Saldanha gave oral evidence as follows :—

The President. Q.—You are a retired judicial officer of the Bombay Presidency and a Member of the Madras Legislative Council?

A.—Yes, Sir.

Q.—You suggest in your memorandum a succession duty, a capital levy, an alteration of the land revenue system and an alteration of the excise and salt revenues?

A.—Yes.

Dr. Paranjpye. Q.—You propose to have succession duty in the case of joint Hindu families by taxing only the share of the deceased?

A.—Yes.

Q.—You are a Christian; don't you think this would be treating the Hindu joint family more favourably than a Christian family, because among Christians the property passes only on death unless there is a gift?

A.—Yes, the whole property passes only at death.

Q.—If you have property whether it is ancestral or not, your property will pass to your son on your death, and your son will have no right in the property till you are dead. In the case of Hindus they get rights in the property both at death and at birth.

A.—Yes.

Q.—But you are only taxing what he gets on death and not what he gets at birth.

A.—Yes.

Q.—Supposing you have one lakh of rupees property, if there were death duties, your son will have to pay on one lakh of rupees. Supposing there is a Hindu who has got a property of one lakh, and after he gets this property, a son is born to him. At his death that property will be charged only on Rs. 50,000, because under the Mitakshara Law if he gets a son, his portion of the property will become only half of it.

A.—I am afraid my reading of the Hindu Law is that once he begins to have a share of the father's property, it becomes his own property.

Q.—If the property has been inherited from the ancestors, whether he has got a son or not, he cannot give it away. But a son is born and he survives; when the father dies the property on which you can charge is Rs. 50,000. Now, don't you think there is a discrimination between the Christian and Hindu?

A.—Yes. I think there is a discrimination.

Q.—I am a Christian, then, on the death of my father I will have to pay tax on one lakh of rupees, whereas if a Hindu inherits a property of one lakh of rupees and afterwards gets a son, when that man dies the son will have to pay only on Rs. 50,000 and not on one lakh of rupees.

A.—Yes.

Q.—Simply because one is a Hindu and the other is a Christian, one will have to pay on Rs. 50,000, and another on one lakh of rupees?

A.—Yes. In the case of a will, we Christians are bound to apply for a probate and pay court-fees and duties from which others are exempt. That is our complaint. In the course of my experience I can say that in ninety per cent of the cases there are disputes and Christians are out to take probate because there are some disputes or other. In the case of intestate succession, it is almost essential to take letters of administration. Also in the case of a Christian there are very high succession duties which the Hindus and Muhammadans escape. We think that either all should be exempted or all charged.

Q.—By your proposal you are not going to do away with the whole discrimination.

A.—I can work out a scheme to allow no discrimination, but I can't think of it just now.

Q.—In the second paragraph of your note, you say that there should only be an estate duty and not a legacy duty. In England and most other countries, death duties are divided into two parts: one an estate duty graduated according to the size of the whole estate, also a legacy duty or succession duty graduated according to relationship, and in some cases also graduated according to the size of the estate.

A.—I would stop with the present system.

Q.—If you propose to charge a general rate of 10 per cent as death duty, I suggest that you should charge 5 per cent as estate duty on the corpus of the whole estate, and charge less than 5 per cent legacy duty in the case of near relations and more than 5 per cent in the case of distant relations.

A.—On further consideration, I think I would do that.

Q.—Under the Hindu Law, a distant relation who has no tie of affection with the deceased very often inherits: that means practically a windfall to him.

A.—Yes.

Q.—Another case is that of an adopted son.

A.—An adopted son is regarded so much as a son by a Hindu that I would not treat him as a distant relation.

The President. Q.—The scale of probate duties in this country is very low as compared with succession duties in other countries?

A.—Yes.

Q.—And yet you think it should be reduced?

A.—We are paying very heavy assessments in other ways. I would keep it as low as possible and even reduce it. If the duty is extended to all classes of people, I think we can get several crores of additional revenue. We, Christians, feel that this tax is a very heavy one.

Dr. Paranjpye. Q.—Can you give us a rough estimate of what you would get? We were told that if income-tax on agricultural incomes were levied, about 14 or 16 crores of rupees could be got, but when we examined the figures, we found that the estimate was grossly exaggerated.

A.—I have not calculated even approximately what you would get.

Q.—Can you make a rough estimate: take, for example, the Bombay Presidency. The land revenue of the Bombay Presidency is something between 4 and 5 crores of rupees. Taking land revenue to be one-fourth of the net assets (which is a liberal estimate), the total net income from land would be about 20 crores: capitalizing at 6 per cent the total value of land will be about 320 crores.

A.—I cannot go into that calculation.

The President. Q.—You say that the present number of civil courts with their elaborate technical procedure will not be able to cope with the collection of the tax. Even now, under the Succession Act, powers can be delegated?

A.—Yes.

Q.—You would propose a separate set of revenue courts to deal with these questions: but do you think that the ordinary revenue courts would have sufficient legal knowledge to deal with questions of Hindu Law that would arise?

A.—I think so: there is no need for much legal knowledge in these purely revenue matters. At present much of the work of valuation is done by revenue officers. As soon as a death takes place, it is the revenue officers who estimate the value of the property. To a great extent we rely upon the Collector's valuation. I do not think Civil Courts are fit at present to make a fair valuation of property.

Sir Percy Thompson. Q.—You know that the question of making a capital levy has been subjected to considerable controversy in various countries. In India you have no real system of estate duties. I was just wondering whether it is worth considering the question of a capital levy in India until you have a system of estate duties. An estate duty is a capital levy which is taken at a particular stage, that is, at death. Wouldn't the more appropriate time to take a capital levy be when somebody gets a windfall rather than to take it from everybody at a definite time? A property under the death duties' scheme comes under review for capital levy once in a generation, and therefore, until you have a well-developed system of estate duties, is it worth while considering the question of a capital levy?

A.—I do not think it is. It is such a complicated question that we have not been able to tackle it.

Dr. Paranjpye. Q.—As regards a tobacco tax, do you consider an acreage duty feasible?

A.—At present we have tobacco cultivation in South Kanara, and I believe fields are taxed according to the condition of the soil.

Q.—Is the class of the field raised, because tobacco is grown in it?

A.—I do not know. I understand that tobacco fields are taxed more or less similar to other fields.

Q.—Is there a special tobacco crop-rate?

A.—I don't know: I don't think there is any such rate.

Q.—But you propose that a further tax should be levied when tobacco leaves enter into a manufacturing or industrial stage. You know that tobacco is a cottage industry and a great deal of ordinary tobacco is made into *beedies*.

A.—Yes.

Q.—Where are you going to tax it? Would you go to everybody's cottage? Many people may have small patches of tobacco cultivation.

A.—My idea is that every one who removes tobacco from the fields should be compelled to bring it to a particular place. In Kanara, cultivation of tobacco is usually carried on in one particular place.

Q.—The tobacco may be removed to a cottage.

A.—I won't allow it to be removed to cottages, but would insist on its being removed to a central place.

Q.—But the man who grows tobacco might remove it to his own house and make cigars at his own leisure.

The President. Q.—As the crop is gathered, you would collect it together, tax it and then leave it free?

A.—Yes.

Dr. Paranjpye. Q.—Do you know that tobacco is cultivated in small patches and it would be administratively difficult to ensure that it is collected in one place?

A.—If it is collected in one large field, it would be easy for the village officer to see that the crop of that particular field is removed to one particular place in the village and there taxed by the taxing officer.

The President. Q.—Wouldn't you get into difficulties with the process of drying it?

A.—It is removed and afterwards dried.

Dr. Paranjpye. Q.—At what stage would you bring it into the central place?

A.—When the leaves are dry.

The President. Q.—That process of drying would go on for some time and you would have to have an officer there for some months.

A.—That would be a difficulty.

Dr. Paranjpye. Q.—Another suggestion made is to sell by auction the right to vend tobacco coupled with a limit of private possession and a license for dealers.

A.—I can't answer that question: I have not gone very minutely into this question.

Q.—You propose that somehow or other some money should be obtained from a tax on tobacco?

A.—Yes: I cannot go into details.

The President. Q.—Would you mind explaining your proposal for the substitution of another system for land revenue? I understand you would have a small quitrent of a uniform character levied according to area, and the rest would be income-tax.

A.—Yes.

Q.—You would not have the exemption limit at Rs. 2,000?

A.—When you substitute income-tax for assessment, the limit should be very low.

Q.—What would your limit be?

A.—I can't say what the limits should be. Under the old Indian Rajahs, I don't think there was any limit. They collected the crop in one place and took one-sixth of the produce.

Q.—Are you proposing to go back to that scheme?

A.—It looks on paper to be a very simple scheme, but it is very difficult in practice to work it out.

Q.—You have not worked out the details?

A.—I tried to work it out, but I found it difficult. In England there is no such thing as land tax assessment.

Q.—There is an old fixed land tax, also income-tax. It is optional to the farmer in England to pay tax on an income which is supposed to be equal to his rent.

A.—We could probably introduce some such system in India.

Dr. Paranjpye.—Here most of the cultivators are small: there the lands are in the hands of big landholders who let them out.

The President. Q.—Would it not come to much the same thing as the present system?

A.—The question is to do away with the survey and land settlements, take the accounts from the cultivator and see what crops are; then take one-tenth or one-sixth of the produce and assess it. It appears on paper to be a very simple scheme.

Q.—When you come to work it out, must it not be based on the survey which you began by condemning? Without survey you cannot keep accounts.

A.—Survey is only for the area of the land. I think it is difficult to work it in detail.

Q.—Under liquors you say, "The only alternative to the national claim for total prohibition should be a national industrial excise policy, so that there be free production of decent liquor subject to excise duty".

A.—Yes; I find that the system works very satisfactorily in Goa. Very good and superior liquors are produced there—superior to those produced in the British territory. The tree is tapped there, and the tree is taxed, and there is a very high license fee for the manufacture of liquor. So many people produce liquor and they are allowed to do it in every village. Only a license has to be taken out for the production of liquor; and in this way a large quantity of liquor is produced there. And at the same time I cannot say that the people consume too much liquor in Goa. The liquor is produced from every sort of tree.

Q.—No attempt is made to limit consumption?

A.—No.

Q.—And you think that is good?

A.—Just as in Europe there is no limit to the amount of production, I would allow the same freedom as is allowed in Europe. I would turn the liquor production into an industry, just as whisky is an industry in Scotland and Ireland.

Q.—You encourage production both for local consumption and export?

A.—Yes. India is capable of producing as good liquors as any other country. Mysore, for instance, produces its own whisky, its own rum, its own gin and its own brandy, though it is not of a very high character. But I am sure that gradually, with proper expert advice, they will also produce as good liquors, as good whisky, as any other foreign country does.

Q.—Do you know how those liquors are distilled?

A.—I think they are prepared under Government supervision.

Q.—Can you define whisky?

A.—I cannot.

Q.—The Mysore liquor satisfies your taste?

A.—No; it is of a very inferior sort. But what I say is that India *can* produce very good liquors out of the material available here. For instance, the *kaju* liquor; it is the opinion of a large number of people who have drunk it that it is a very superior liquor and good for the health also; and it is also used as a remedy for various complaints, for instance, rheumatism.

Q.—With regard to salt, you would levy a heavy import duty?

A.—Yes. My information is that a large quantity of salt is carried to Bengal as ballast from foreign countries and it pays no tax. And even if a tax is imposed on it, I think it is equal to the excise duty. As the salt imported is superior salt, the production of Indian salt must suffer. I would, therefore, encourage the production of superior salt in India. It is impossible to believe that India cannot produce as good salt as the foreign countries produce.

Sir Percy Thompson. Q.—But it costs very much more to send Indian salt to Bengal.

A.—If salt can easily be brought in ships from foreign countries to Bengal, why cannot Bombay or Madras salt be carried to Bengal?

Q.—Do you know it costs more to send cotton goods from Manchester to Liverpool than from Liverpool to Bombay? What happens is that ships

take Home Calcutta produce, such as rice and jute, and return with the salt and they can afford to take it to Calcutta practically for no cost. But there is no trade between Calcutta and Bombay.

A.—Why should not Bengal pay more for the superior salt it gets? No doubt I am against this high salt duty, and it should be reduced to the lowest limit possible. In England I believe salt is not taxed at all; and if this high excise duty is removed, Bengal can have Indian salt as superior as the imported salt.

Q.—The point is whether the man in Bengal is bound to pay more than the man in Bombay or Madras. The man in Bombay gets it cheaper because there is little transit cost. If you are going to force the Calcutta man to eat Bombay salt, he has got to pay the price in Bombay *plus* the carrying charge from Bombay to Calcutta. Is it not hard for him to pay a high rate when he can get that salt from abroad at a less price? Are you going to say, "No, you shall not get that salt from abroad; you must have Bombay salt and pay the extra price"? Is it not rather hard lines on Bengal?

A.—I see the point. But it is very strange that India should not be able to produce salt for the whole of India. Even Bengal, with all its big rivers and other facilities, should be able to produce good salt. I do not see any reason why superior salt cannot be produced in Bengal itself. It is really a wonder to me that Bengal cannot produce its own salt.

Q.—Is there not this difficulty that the salt-producing season in Bengal is very short and you often get storms there?

A.—I have not studied the question why Bengal cannot produce its salt. But some of the northern coast districts in the Madras Presidency, for instance, the Ganjam district, and also the Orissa coast, ought to be able to produce salt as good as imported salt. I think the people should be encouraged to produce good salt for consumption in this country.

The President. Q.—Did you hear of the storm very recently?

A.—But it is a rare occurrence.

Q.—But it would result in the loss of lakhs of rupees.

A.—My opinion is that some screw is loose somewhere in the administration of our country. We cannot have our own sugar, and our own manufactures even with respect to that most ordinary things such as salt, liquor and so on. Even for our ordinary necessities of life we have to depend on the foreign countries. I hope that surely a day will come when India, with proper encouragement, will be able to produce its own liquors, its own salt and other things.

Dr. Paranjpye. Q.—Is it not a fact that a lot of *kaju* is wasted, which can otherwise be used in making alcohol?

A.—Yes; thousands of tons of *kaju* are wasted. I had been going to a number of villages to make a study as to the conditions there and how their condition could be improved—a sort of economic enquiry; and there was a friend of mine from Bombay who devised a scheme with regard to the improvement of the condition of the village people. The excise question is a serious question with them. Previously they had their own liquors—very superior liquors—which they drank for years together. There was a sort of enjoyment of life among them. But now they find that they cannot have the same enjoyment. *Kaju* is wasted and so many other things are wasted. They cannot manufacture their own liquors; they cannot manufacture their own sugar. These industries of liquor, sugar and other things are entirely lost to the people.

20th May 1925.

OOTACAMUND.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

M.R.Ry. Rao Bahadur T. A. RAMALINGA CHETTIYAR, B.A., B.L., M.L.C., was examined.

Written memorandum of Mr. Ramalinga Chettiyar.

Q. 1.—The industrial statistics and the statistics of income are fairly accurate. The agricultural statistics and the vital statistics are neither adequate nor reliable. The last are prepared in the villages without sufficient check. The return of yield is guess work. When complaints of underestimate are made in certain quarters as stated, the ryots complain that the yield is overestimated, at least in lean years. It is possible to get a proper estimate of areas sown, but it will be difficult to get accurate estimates either of the normal crop or of the crop for the year.

Q. 2.—The wide divergence seen in the several estimates of wealth and income show that they cannot all be correct. The estimates based on actual calculation in the villages as in the case of the studies of Dr. Mann, Dr. Slater and Mr. Jack should be more reliable than those based on the estimates of national income, but even in individual studies there will be error, unless a large number of villages of different types are selected and studied, and an average of the income in all the villages is struck.

Q. 3.—The incomes that do not come under income-tax are so large in number that any estimate based on income-tax cannot be correct in India. With the joint family system, and with the voluntary nature of the provisions relating to taking probate, letters of administration and succession certificate, this calculation cannot be of much use in India.

Qs. 4, 5 and 6.—A census of production in this country will serve no useful purpose as production depends largely on the monsoon which is a very uncertain element. No result commensurate with the trouble and expenses of taking a census like that will follow. An all-India Bill providing for the collection of more reliable information will have certain advantages, but such legislation should be made providing for suitable changes necessary in the several provinces. Any information that is provided for should be capable of being given for all provinces. Without that, no idea can be obtained as regards the comparative incidence of taxation in the several provinces.

Q. 7.—Estimates are useful to show the capacity of the people and where exactly the incidence of taxation falls.

Q. 8.—The studies so far made are not sufficient to form the basis for drawing general inferences. A large number of typical villages and trades should be chosen and should be studied and estimates taken. Great care ought to be taken in selecting the types of villages, otherwise the statistics that may be gathered may be made to support any pre-conceived idea.

Q. 9.—The real incidence of taxation can only be studied with reference to family budgets. Here again families of different types should be chosen in large numbers so as to avoid errors.

Q. 10.—Sale proceeds of waste lands account for about 6 lakhs in the land revenue budget. Penalty is also included in the budget figure for land revenue, but there is no separate account kept for that.

Q. 11.—Sale of trees is included in revenue from the forests.

Q. 12.—No.

Q. 13.—In the case of Government undertakings the return for any special natural facilities should be made available for the whole community. Whereas in the case of forests the Government undertake a commercial exploitation, the Government will naturally get the competitive prices that may be obtained in the market. It is only in cases of monopoly there is no competitive element.

Q. 14.—All the cases mentioned are monopolies. In the case of goods in the local market, prices are fixed by competition and the prices will naturally approximate to the cost of production. So, ordinarily, the cost of production is the minimum price for goods. In the case of a monopoly, there is no competition, and the prices fixed above the cost of production will therefore have to be considered as a tax.

Q. 15.—The charge for water for irrigation is fixed with reference to the precariousness of supply in the source of irrigation or otherwise and the nature of soil. In some places there are natural facilities which should reduce the cost of supplying water. In other places costly works have to be undertaken before water can be supplied. The natural facilities should, in my opinion, go to the account of the general community and not to that of the locality. Similarly, the costliness of the scheme should not be a burden on the locality affected. The present system of classifying sources of supplies and the soils and charging rates with reference to them seems to me to be the fair arrangement both for the cultivator and to the State. The other proposals suggested seem to me to be open to objection. I am not in favour of treating each work separately, except where works are undertaken on special terms.

Q. 16.—A proportion of the increased value should be taken by the State in the shape of a betterment tax. The owner of the lands newly brought under irrigation has to incur heavy expenditure to prepare the lands. If in addition he has to pay a lump sum to the State, he will have in most cases to borrow which is not advisable.

Q. 17.—The Estates Land Act will stand in the way to a certain extent. Suitable amendments will have to be introduced.

Q. 19.—Local taxes will have to be considered along with provincial and imperial taxes, and should be considered, in ascertaining the incidence of taxation.

Q. 20.—Only those taxes which are levied for specified services rendered will have to be treated separately, for example, scavenging fees, house-lighting fees, etc.

Q. 21.—Indirect taxes can be considered voluntary only when they are levied on luxuries which the consumer may or may not use at his choice. Even here the tax is a burden, but it is levied on shoulders that can bear them.

Q. 23.—I do not agree with the statement quoted. Those who drink and, much more, immoderate drinkers are not capable of resisting temptation. In their case the consumption cannot be said to be optional.

Q. 24.—I have no objection to a tax upon entertainments, provided it is levied only on the upper class tickets.

Q. 25.—Even though there may be a few among those who by religion or custom are prohibited from taking intoxicants, the generality of these do not resort to taking intoxicants. So it will be fair to exclude these from consideration in estimating the burden on these classes.

Q. 26.—The taxation in this country has not been based on the maxims enunciated by Adam Smith, and the capacity to pay has not always been the guiding principle. In levying taxes the best time for collection is not always chosen—see for example the *kist bandi* in the Madras Presidency.

Qs. 27 to 32.—In the present system of taxation, probably in all the States, every member of the community will pay a tax of some sort. Incapacity to pay should be the basis for exemption. Everything a man does in the community has got its effect both from the sanitary as well as the economic standpoint on other people in the community. So, even apart from taxation, representation will be necessary to safeguard one's own life, health and property. I will not recommend a poll tax or any other direct tax to be collected from every member of the community. I consider that poll tax is more objectionable than the salt tax and other taxes in Q. 32.

Qs. 33 to 35.—I approve of the present scheme of graduation in income-tax. I will differentiate between the earned incomes and those from capital simply invested. The present system of exemption does not take note of the family and its requirements. Allowances should be made on the basis of the number of members in the family; otherwise, the exemption will not be the same thing to every family. To ascertain the number of members in the families will not lead to more inquisitorial proceedings than those now necessary for ascertaining the income. The family being in India the unit, any exemption not based on the number of members in it will not be correct.

Q. 37.—I disagree with the present system of levying super-tax on companies. The shareholders in companies belong to all grades of life. It is not equitable to ask the poor shareholder to pay at the same rate as the rich one. The system of rebate does not work properly, as the poor shareholder never takes the trouble of applying for and getting back the tax paid. I am in favour of fixing a license fee for the companies and then levy income-tax on shareholders wherever they may have to pay.

Q. 38.—I do not see the reason for exempting the incomes from agriculture, especially of the absentee landlords. If the present limit of exemption were applied, the proportion of actual cultivators farming their lands that will be affected will be very small.

Q. 40.—In India the family is the unit. The average number of members in a family may be taken as five. Considering that, the limit of exemption of Rs. 2,000 does not seem to me to be high. When agricultural income is brought under income-tax, a similar exemption will have to be made in that also.

Q. 41.—The service of accountants are not much utilised.

Q. 42.—The form prescribed already serves the purpose. I am not in favour of prescribing anything further. The state of literacy in the villages and the simple nature of the transactions do not necessitate any book-keeping to be prescribed for the accounts, besides the forms already required.

Q. 44.—I consider tax-free securities as objectionable, as they really mean an additional interest paid. I am against any form which hides the real advantages given by the State to those who lend to it.

Q. 47.—Assessment on a three years' average will be more satisfactory.

Q. 48.—By confining indirect taxes to a few articles, the cost of collection will no doubt be diminished. The tax will only affect those who use those articles, and those who do not use the articles will be exempted. Unless a large number of articles are chosen in such a way that in the result all those who can afford to pay are equally affected, the result may not be equitable. I do not agree that in a country like India there is no hardship in taxing necessaries, on account of the fact that three-fourths of the population consume no luxuries.

Q. 49.—I have no objection to existing duties on cigarette papers, chocolates, motor cars and perfumeries.

Q. 50.—A graduated tax based on the value of the articles consumed naturally throws a large burden on those who can afford to pay. An indirect taxation based on such graduation is practicable.

Q. 52.—On the assumption made salt tax is less objectionable than others that can be substituted.

Q. 53.—The rates of taxation in any country cannot be considered by themselves without reference to the income of the people. I do not consider that, having reference to the income of the people in India, taxation here is low. It is positively high in certain matters.

Q. 54.—Since the cost of production is comparatively low with reference to the price in the market, I would advocate a monopoly of all supplies.

Q. 55.—Yes.

Q. 56.—No.

Q. 59.—Opening of depots by the Government will naturally remove the middleman's profit and make the consumer realise the full benefits of any change in the rate of duty.

Q. 61.—I anticipate the introduction of a policy of total prohibition in the near future.

Q. 62.—The loss in revenue may be made up by a graduated succession duty, and if necessary, a tax on agricultural income above Rs. 5,000, not now subject to adequate tax. As to the other taxes mentioned, I would support a totalizator duty, but not the others.

Q. 63.—The statements quoted are made on the assumption that an increase in the cost will lead to a reduction in consumption. Unfortunately, the experience of this province has not been in favour of the assumption. The statement of Dr. Mathai that "under a system which raises prices without applying sufficiently effective direct remedies for checking the extent of consumption and the habit of drink, the necessary results in the case of a hapless and unthrifty population would be to increase the expenditure on drink out of proportion to the resources of the individual." This in my opinion is correct. The result of the very large increase in license duties and auction prices has been to take away from the unfortunate drunkard a large portion of his earnings. He is so much subject to temptation that he is not able to control himself, and the high prices have practically no effect.

Qs. 64 and 65.—I am not in favour of exploiting the weakness of the helpless people for taxation. The present system only results in that, and as a means of that exploitation, the system works well enough if prices are high.

Q. 66.—No.

Q. 67.—I would support a high duty for locally made imitations of imported liquors, but not freedom on restriction and transport.

Q. 68.—Yes.

Q. 74.—The effect of reduction in the number of shops has not been very perceivable. The general result of the closure of some shops has been to increase sales in the neighbouring shops. I believe that at least a few people who have been tempted unduly by the existence of the abolished shops are saved by the closure of the shops. The fact that the quantity of consumption has been more or less steady in this province is due to this policy of closing a large number of shops, but for that I fear consumption would have increased. The increase in sale in the shops still open, on account of the closure of the other shops, naturally means an increase in the value of the licenses for these shops.

Q. 78.—A selection of articles will be necessary so that the customs may not be a burden on only a portion of the population.

Q. 87.—The tax on betting and the tax on entertainments may be adopted here, the latter with the limitations already mentioned.

Q. 88.—A reclassification of the several items in the Stamp Act and a variation in some of the rates will be more scientific. Ordinarily, mercantile transactions, and transactions for small amounts which are likely to affect the poorer class of people, should be charged less than others. Gifts, bequests and inheritance should be charged a higher tax than transactions for value. Succession by a gift or bequest to a member of the family or the inheritance by a close relation should be charged less than that to only an outsider.

Q. 89.—In the case of court-fees there are two conflicting principles to be considered. One is to treat it as a charge for services rendered. So far as the time of the court is concerned, a suit involving a large amount takes more or less the same time for trial as a suit for a small amount, but, on the other hand, the poorer man cannot afford to pay at the same rate, much less the same amount as the richer man who resorts to court. At

the present moment we have a regressive graduated duty fixed. It should not be forgotten that ultimately the poor man against whom the decree is passed has to be taxed for duty.

Qs. 92 and 93.—In the case of court-fees and registration fees there is a likelihood of an element of taxation existing. In the case of registration fee there is the element already, and in the case of court-fees, in some years there has been a surplus over expenditure incurred. In the case of both court-fees and registration fees there is no justification for the Government to make a profit.

Q. 96.—Land revenue will have to be considered both as a tax and as rent. When the Government interferes in a purely economic relationship it does not keep the relationship separate. So, what may have originated as a rent has become confused. Another factor that has also contributed to this is the fact that the Government is the owner of most of the lands and thus occupies the position of monopoly-owner. In cases of monopoly also, there is likely to be confusion, and the economic relationship alone cannot be separated in practice. So, whatever may be its position from the point of view of economics, it is not possible at the present moment to treat land revenue as rent, but in treating it as a tax the consideration that it originated as a rent is not lost sight of. The fact that in permanently-settled estates the Government has given up the right to treat the tax on land as rent gives additional reason to those who object to enhancement in other cases, a valid ground.

Q. 97.—The prosperity of the cultivator is affected by the land tax, and any enhancement of it, especially suddenly, is bound to have bad effect.

Q. 98.—The criticisms are correct, and I do concur with them.

Q. 99.—The present system leads to inequality for various reasons, one of them being the average taken of the prices ruling over different periods. There is also the question of the personal element, the Settlement Officer and the District Collector for the time being. The complaint is that while some districts have been treated favourably others suffer. The recent agitation in Tanjore was mainly based on the contention that it had been treated unfavourably in successive settlements. Some sort of uniformity is necessary in land revenue. The following plan is suggested. All the districts may be surveyed and the lands classified once for all. Most of the districts have been surveyed already and the lands in them classified. The few more taluks that still remain may also be surveyed and the lands classified. A uniform rate for all the districts based on these classifications may be adopted, and this may have reference to the average price prevailing over a number of years. Land settlement may be made permanent, on the basis of this uniform rate. If the Government require more money, they may raise it by a tax on agricultural incomes above a certain figure, say, Rs. 5,000 gross income, or Rs. 2,000 net income. This will be more satisfactory and meet many of the objections raised to the present system.

Qs. 100 and 101.—For the subsistence level the family should be taken as the unit, and not the individual. If temptation were given, further fractionalisation of holdings may result in some cases, but it will be nothing compared to the present fractionalisation due to the laws of the country. Lands even when they are so small as an acre are fractioned; so to give an exemption up to a limit of Rs. 2,000 will not very seriously affect the question of increase of small holdings. The ordinary holding is very much smaller than what the fractionalisation of holdings yielding an income of Rs. 2,000 is likely to be. Fractionalisation cannot be checked so long as the Hindu Law, which gives shares to all members of the family is in force. Any change or limitation will only cause loss and irritation to the people without in any way checking fractionalisation.

Q. 102.—I will not apply the principle to waste lands newly brought under irrigation, because the State as the owner of lands will not be working them as profitably as the individual landowner. On the other hand, I agree that the benefit of the natural resources newly found should go to the State. I would either sell the waste land after the irrigation scheme begins to work by open auction or charge a sort of betterment tax.

Q. 103.—I will leave the imposition and collection of land revenue to the local authorities for the reason that the increase in the value and income of the land is mainly due to the facilities afforded by the local authorities.

Q. 104.—Comparative incidence of the land revenue in different places is a difficult question to solve. The assumption in question that it may be the same throughout the same province does not seem to be correct. The incidence of land revenue will depend on various matters, among which, the extent of land, the nature of the soil, the condition of the monsoon, the nature of the crop grown, the facilities for marketing and the prices fetched in market as also the cost of cultivation will have all to be considered. To take a rough method, methods 4 and 5 suggested may be better than the others.

Q. 106.—The Financial Relations Committee which was constituted by the Government in 1920 found it necessary to classify the services into three, namely, national, semi-national and parochial. It is not possible to have any hard-and-fast distinction in the principle of taxation as among the several classes of the services. A service, though parochial, may be more necessary than our national service; *vice versa* the national services may have to be considered from the point of view of the benefits received from it.

Q. 107.—The scheduled taxes are not sufficient to meet the growing needs of the local bodies. At the same time, there is difficulty in finding new sources, as some of the proposals so far made only suggest additional tax on land and income-tax, which are already local and imperial taxes. Any additional cess on land in this Presidency will meet with strong opposition. The professional tax and the companies tax already affect those who get income otherwise than from land. There is also the opinion that the Government is not bearing its share of the expenditure on national and semi-national services. The want of fixed principles has been felt in this Presidency.

Qs. 109 and 110.—Octroi is not levied in this Presidency.

Q. 111.—Tolls have got their justification as they make those who use the road pay for their upkeep. There may be people who own or use vehicles, who otherwise may not pay any tax to any local bodies. It may be said that they pay only for services rendered. So I would support their maintenance, even though they contribute somewhat to retard traffic. With the present fast travelling, toll gates at close intervals are legitimately considered a grievance. A distance of at least 25 miles should intervene between one toll gate and another. The difficulty in this matter is that there are many local bodies, and each wants toll to augment its resources, and each body is maintaining a portion of the road. To avoid all difficulties, the best course may be to have toll gates at 25 miles distant from each other, to pool toll income and distribute the same among the several local bodies concerned on the basis of the expenditure incurred by them in the maintenance of the roads. This distribution can be effected either by consent of the local bodies at a joint conference, and when that is not possible it may be settled by Government.

Q. 112.—It is a matter of convenience that settles the owner or the occupier as the person from whom the tax should be collected. While the owner is known, the occupier is not generally known, and also he changes. The owner will be able to shift the burden of tax on to the occupier in cases where there is keen competition for the house; where that is not the case, the owner may have to pay.

Q. 113.—Since it is not always possible to shift the burden of taxation on to the shoulders of the occupier, a limitation is necessary; otherwise house property in municipal areas will become depreciated and the housing problem will become more difficult. House tax should not be the only or the main tax in an urban area.

Q. 115.—I am not generally in favour of taxing value except when it is realised by sale or otherwise. When a building is constructed, a betterment tax may probably be better.

Q. 116.—The professional and company's taxes have been levied in this Presidency and there is no special complaint about them in urban areas. In rural areas objection is taken to professional tax.

Qs. 117 and 118.—I am in favour of the Government bearing a definite share of the expenditure on specific services. I am not in favour of lump sum grants. While the Government give for specific service, it will have no doubt the right to inspect, and a minimum degree of efficiency in the

administration of service may also be insisted upon. The civic consciousness is growing, and people are realising their responsibilities in the administration of local bodies.

Q. 119.—Most of the taxes mentioned are already being levied in some form or other.

Q. 121.—I generally agree in the statement, but the difficulties in assessing are not realised.

Qs. 122, 123 and 124.—Suggestions 2 to 5 unduly restrict the freedom of the cultivator. The proposals may ultimately amount to treating tobacco as *ganja* is being treated now. Tobacco is at present a profitable sort of cultivation for the ryot, and if anything, I am in favour of giving more facilities to the ryot to grow tobacco. The first method suggested is less objectionable. A method by which the assessment will take account of the price realised will be more satisfactory. A tax on export gives room for evasion, as the importing States from this Presidency are Travancore, Cochin and Ceylon. On the whole, an acreage duty is preferable. Considering every thing, I would prefer the first method suggested, even though it is likely to lead to inequalities in certain respects.

Q. 129.—I will give no such exemption.

Qs. 132 and 133.—In spite of the fact that they give rise to evasion, I am in favour of *ad valorem* duties. Specific duties have no meaning in such cases. The excise may be fixed at a rate lower than the customs, so that some advantage may be given to local manufacturers.

Q. 134.—The proposals for taxing tobacco growing are not likely to very seriously affect the cigar trade, as the tax may be a very small portion of the price charged for cigars and cigarettes.

Q. 136.—C is the least objectionable. In view of the widespread habit of tobacco-chewing, any system of licensing will be objected to.

Q. 137.—Yes.

Q. 138.—All the three methods mentioned should be adopted in combination.

Q. 139.—The tax should be levied at the same rate throughout India. It should be graduated progressively. As the provincial finance is more in need of augmentation than the imperial, the duty should be a provincial tax, or the Imperial Government should make it up in some other way.

Q. 141.—The duty should not be levied on joint family property which is taken by survivorship by the surviving members after the death of a member. The family is the unit, and as the unit continues there is no question of succession. It will be very unfair to treat a member of a joint family as a separate unit and levy any tax on the supposition that he is entitled to the whole or any portion of the joint family property. The succession or any inheritance duty should be restricted to individual or separate property.

Qs. 144 to 146.—In India the exemption made may be fixed at Rs. 1,000. There will be difficulty in assessment. Ordinarily, the statement of the assessee will have to be accepted with regard to their valuation, but book debts and debts on pro-notes can be traced and assessed. The same department that administers income-tax may also administer this tax with the help of the Land Revenue Department, which may be requisitioned when necessary. There is not at the present moment the same co-operation between the Income-tax Department and the Revenue Department that one should like to have.

Q. 147.—I am in favour of combining methods 3 and 4.

Q. 149.—The present system leads to inequalities both in the incidence of taxation and also in the resources of the provinces. The provinces should be given the benefit of the growing commercial revenues by a system of division of revenue between the Imperial and the Provincial Governments in the revenue derived from income-tax and customs.

Q. 150.—A more satisfactory solution should be based on the incidence of taxation being the same in all provinces. It is not possible so long as some provinces have got permanent settlement of land revenue. Equalizing on the present arrangement will only mean that some provinces will be lightly taxed, while others will be heavily taxed, and it may be that for the benefit of the lightly-taxed provinces other provinces will have to pay more. So, either the incidence of taxation should be brought to the same

level in all provinces, or the different provinces should be allowed to take the consequences of the special treatment they want to be given to particular interests in their provinces.

Q. 152.—I accept the reasoning.

Q. 154.—I will not allow the Central Government to have anything to do with excise. Except for the difficulty of assessment I would advocate a transfer of the customs duty on foreign liquor also to the Provincial Governments. Giving an interest in excise to the Imperial Government will stand in the way of the acceptance of any policy leading to considerable reduction in consumption at once and total prohibition in the end. I will not complicate the issues by giving an interest in this revenue to the Imperial Government. Every province ought to be free to adopt the policy it considers best and take the consequences. If the province is prepared to take the consequences, I don't see any reason why the Central Government should be in a position to dictate the policy. In America, prohibition laws were passed in several States before the Federal Government took it up. A similar course ought to be possible in India also.

Q. 156.—I accept the reasoning. A division of the proceeds is practicable. The domicile of the assessee or the deceased, as the case may be, will have ordinarily to be taken as the basis for the distribution of the tax.

Q. 157.—Similar considerations do not apply to these cases. I will not differentiate between the judicial and non-judicial stamps.

Qs. 160 and 161.—Special assessments and fees of all kinds are essentially local taxes. The present profession tax and the company's tax really form an addition to income-tax on incomes. There is a cess on land revenue. These are the present sources of the local bodies in this Presidency. I think there should be a limit fixed for the surcharge on land revenue or income. Taxes due to betterment caused by the facilities afforded by local bodies and those due to extension in the neighbourhood of urban areas should belong to local bodies. Any return for services rendered should naturally go to the local bodies.

Q. 162.—There is danger in the same property or income being subjected to taxation by several bodies, because they are not likely to consider the joint effect of all these taxes. At the same time, it is not possible to separate altogether and earmark for different agencies the several sources of taxation. The only possible way in which the danger mentioned can be avoided is by fixing the maximum limit up to what the subordinate agencies can tax.

Q. 163.—Yes. I am strongly in favour of fixing the prices in all cases in which there is likely to be practical monopoly.

Q. 164.—Life insurance may be a Government monopoly.

Q. 165.—The principle seems to be all right, but I cannot accept any article, except probably salt, to be brought under State monopoly.

Q. 167.—I do not agree so far as conditions in India goes.

Q. 168.—The staff is excessive, but on account of the miscellaneous work given and the wide area to be covered, the Government is not willing to reduce the staff. If the function of the department is clearly realized and fixed, the staff can be considerably reduced. At the same time, the land revenue staff is considered as the servant for all work, even though special staff has been brought into existence for doing many departments of work.

Q. 169.—It is quite possible to combine all the staff necessary for imperial taxation in one service. Similarly, all those required for provincial taxation in one service. The present system of having a separate staff for each department is too expensive and quite unnecessary. For instance, the *abkari* staff will be unnecessary if its work is divided between the Revenue and Police Departments. In any case, so far as the supervising staff is concerned, they can certainly take in the various departments under their control. It is unnecessary to have separate supervising officers for each department.

Q. 171.—This raises a big question of administration. The need for an independent executive officer has been felt in many big local bodies. His position will have to be more or less the same as that of officers serving in the Transferred Departments. As this raises questions other than mere assessment and collection of taxes, I will not go into it.

Mr. Ramalinga Chettiyar gave oral evidence as follows :—

The President. Q.—You had been Chairman of the Coimbatore Municipality for some years?

A.—Yes.

Q.—Also President of the District Board?

A.—Yes; I was.

Q.—You have considerable experience in both these capacities?

A.—Yes.

Q.—And you have been a Member of the Legislative Council for several years past?

A.—Yes.

Q.—The first part of your answers, that is, the statistical portion, will be dealt with by the other Committee, the Economic Enquiry Committee, except the portions relating to incidence of taxation.

Your view is that "the real incidence of taxation can only be studied with reference to family budgets". But there are not sufficient family budgets available at present. We should have to make a very exhaustive collection.

A.—Yes.

Q.—It is a matter of years.

A.—It all depends upon how you proceed with the work. If a special committee is appointed, probably it won't take so much time. If, on the other hand, it is to be done by students of political economy, it will take a much longer time.

Dr. Hyder. Q.—Don't you think that we can broadly divide the people into four classes and say what particular items of taxation are borne by each particular class? Take, for instance, income-tax, land revenue, customs and so on.

A.—The difficulty is that there is difference as between different localities. In some places the poor people consume articles, which in other places they do not. For example, take toddy or arrack. Until recently people in the Nilgiris did not take either of these.

Dr. Paranjpye. Q.—We can say generally that the poor people drink toddy and arrack and not the rich.

A.—But what I say is that until a few years ago the Badagas here—the low class of people—did not drink. But in other places people of the same grade have been drinking for years; so that you cannot form any general conclusions.

Q.—We are not going to distinguish the classes so very minutely. For instance, we can broadly divide into poor, middle class, moderately rich, and rich people.

A.—Even with regard to them, the consumption will vary with different localities. What is consumed by the rich in some places may not be consumed by the rich in other places. For instance, take the turban. Perhaps in Poona they go in for lace turbans; but in other places they do not.

Dr. Hyder. Q.—May I know whether in your opinion it is not possible to say roughly how the customs duties are borne by the different classes of people, i.e., what customs duties are borne by particular classes of people?

A.—I do not say it is not possible. You will have to take a fairly large number of typical localities and also typical families. Unless these two factors go together, it will not be possible to decide that question.

Q.—In a country where there are about 320 million people, these small variations do not matter much.

A.—The variations are not very small if you take the big localities into consideration. The conditions of the different classes do vary in different localities.

The President. Q.—Could you not proceed by a process of elimination? For instance, you can say that the poorest classes do not use motor cars. Reduce it down still further until you come to the taxes that the poorest classes do pay. For instance, import duties on cotton goods of the lower grade, matches, etc.

A.—Yes; there are certain things which are consumed by the poorest classes.

Dr. Hyder. Q.—With regard to Q. 14 you say, "In the case of a monopoly, there is no competition, and the prices fixed above the cost of production will, therefore, have to be considered as a tax". What do you include in the cost of production?

A.—The actual cost of producing the thing.

Q.—The Government provides railways, post offices, irrigation and other such things. Now will you include in your cost of production the salaries that the Government has to pay to its administrative staff? Also will you include the normal reward for risk and management?

A.—Yes.

Q.—And also the normal return on the capital invested?

A.—Yes.

Q.—And to the Government, the normal profit on their undertakings, i.e., what would be got had the undertaking been in private hands—what a private manufacturer would obtain as normal reward for his work and enterprise?

A.—Yes.

Q.—Having included that, you say that the rest is in the nature of a tax?

A.—Yes.

The President. Q.—You say that the return from natural facilities should be made available for the whole community?

A.—Yes.

Dr. Hyder. Q.—What is it exactly that you have in mind? For instance, take irrigation. You have got different canals in your Presidency. Some areas are favoured by nature in which case the cost is very low, and there are others which are not so favoured by nature, in which case the cost of construction is high and the production from the soil will also be less.

A.—Yes; I have mentioned that in another connection.

Q.—What system of rates will you have in the Madras Presidency? Would you have higher rates in those areas which are favoured by nature and where people can afford to pay more?

A.—No. At present we have got only one rate. We have got a classification based on the system of supply and on the soil. These two together are taken into account. The same rate is fixed regardless of the cost of supply, and I think it is a fair system. For example, in the Godavari, the net return to the Government is something like 18 to 20 per cent and in other places they get only from 5 to 6 per cent.

The President. Q.—You have in the Godavari delta some of the best land in the Presidency paying a rate of Rs. 5; and in the Bhavanasi project, very poor land pays Rs. 15. Would you raise the Godavari rate to Rs. 15?

A.—Yes; I will bring all the rates to the same level.

Dr. Hyder. Q.—If the source and the soil come under the same category, you would level up the rates?

A.—Yes.

Q.—What is it that you meant when you say, in answer to Q. 15, "Similarly, the costliness of the scheme should not be a burden on the locality affected"?

A.—I mean the particular locality.

Q.—That is, if a canal runs through a particular region and it cannot pay its way unless the rates are very high, you will have the canal constructed and charge lower rates, making up the difference by levelling up the other rates?

A.—What I say is, pool the whole thing.

Q.—You look upon the irrigation enterprise as a whole. Taking all together, there will be some regions which are very rich and some which are not. In those regions where canals cost you much and which have the least ability to pay, you will have your canals constructed and you will charge lower rates; and you will force up the rates in the more favourably situated areas?

A.—That will be the case. Only if the cost of the scheme is taken separately.

Q.—You will not take into account the value of the water to the people?

A.—I do. What I want to say is this. In the whole Presidency you have certain rates for each class. For the first class you have certain rates, for the second class you have other rates and so on. The cost of construction will vary on account of the natural conditions. So where it is cheaper, the Government gets the benefit, and where it is dearer, it loses. But so far as the people are concerned, the return they get will be the same throughout.

Dr. Paranjpye. Q.—When a Government goes in for irrigation schemes, it obviously takes up the cheapest and the most favourable schemes in the beginning. When they lay down the rates for that scheme, they will probably fix the rates which will just pay for the cost of that scheme. They next take up a more expensive scheme, and naturally they will have to fix higher rates. Now in order to lessen the rates for the second scheme, are you going to put up the rates for the first scheme?

A.—What I suggest is this. That should be the case ordinarily. But in special cases, when a scheme is not undertaken in the interests of the country generally or when a few landlords want a particular scheme and are prepared to pay for it even though it is costly, then separate treatment should be allowed. But ordinarily, where the Government thinks that a certain irrigation work ought to be taken up, I think they should not make any difference between one work and another.

Q.—From what I understand, Godavari and Kistna are very favourably situated for irrigation. Now, would not the people of those regions feel aggrieved if they have to pay higher rates in order to make the schemes in the famine areas, for instance, pay?

A.—My argument is that you are to fix the rates on the particular class of land and source without reference to what actually a particular scheme or all the schemes together cost you.

Dr. Hyder. Q.—There is another point; you must look upon the irrigation enterprise as a whole. You will take the above schemes separately and if two schemes are the same in point of reliability of sources and classification of soils, you will charge on both these schemes at the same rate?

A.—Supposing you have a scheme in one area and it would not pay unless you charge 15 or 16 rupees, you may not undertake it unless you are prepared to raise the rates in the better tract. My contention is not that you should raise the rates in the other schemes; that is not my point at all. I do not want you to raise or lower the rates on account of the cost of the new schemes.

The President. Q.—Then how would you fix the rates in the new schemes?

A.—I would classify the irrigation sources in different classes, as first, second and third. Soils are already classified. Therefore, what I would suggest is, wherever the land might come under irrigation, take the rate of classification, and then charge so much for the first class, so much for the second class, and so on in the whole Madras Presidency.

Sir Percy Thompson. Q.—Supposing you have a very favourable and simple scheme where it is easy to irrigate, and in the past you have charged only Rs. 4, whereas, as a matter of fact, the land is such that under your classification you would have to charge Rs. 15, you will charge Rs. 15 on the general merits quite irrespective of any new developments which you might undertake?

A.—Yes, because the man is going to get the same thing as another man in a similar place.

Dr. Paranjpye. Q.—Supposing you start with a clean slate and it is the first irrigation enterprise, how would you charge on it?

A.—If there was only one scheme, Government won't undertake the scheme except on a capitalistic basis.

Dr. Hyder. Q.—I was going to ask you whether you realise the implications of what you have just admitted, that is, you will base your rates on the principle of ability to pay?

A.—I said the return the ryot gets in the shape of additional produce from the water. It is on this principle that he pays.

Q.—You will have one limit like that, the return, and the other limit would be what it costs the State. So you will fix the rate on a compromise between the two?

A.—I think the Government always does this.

Q.—How will you meet this difficulty: I instance the case of a very poor tract subject to famine; Government thinks that an irrigation project should be introduced there, and Government does introduce it?

A.—I have already said that for other reasons Government would find it necessary to open such projects.

Q.—I say in such cases Government might have to charge very little just as railway companies do. It may be it is not enough to cover the cost. For instance, the railway companies carry gold and coal. They charge for coal much less than they charge for gold. They do it because they want to get as much as the traffic will bear.

A.—I do not want the Government to go in for rack-renting. If they are to get as much as they can, it will simply mean rack-renting.

Q.—It is not extortion. Your railways do not base their rates on any extortion principle?

A.—It is.

The President.—The fixation of railway rates is based not on ability to pay, but on what the traffic can bear.

Dr. Hyder. Q.—Will you have your rates as the President has said, on the basis of what the lands can bear?

A.—I do not want to make any difference between one scheme and another. I only say for the additional income you get from the land you fix a particular rate, and then have the same rate throughout the Presidency.

Q.—Then I understand that you are in favour of the present system, according to which the rates are based on the reliability of the sources and the classification of the soil.

A.—Quite so.

The President. Q.—You say that the Estate Land Act stands in the way; would you explain that to us?

A.—That is because the landowner himself has got the right to a certain amount of water and the tenants have also got certain rights in water with the result that these rates are fixed by custom. The net result is that some people pay only Rs. 5 an acre.

Q.—Is there any reason why the same principle should not be applied to the whole country, does the Estate Land Act prevent the rates being raised?

A.—Yes, because the zamindar is entitled to so much water under the rules, and sometimes they are entitled to water even without paying any rates.

Q.—Where he is paying water-rate, is it not liable to revision?

A.—I think so.

Dr. Hyder. Q.—In Q. 21 you say indirect taxes can be considered voluntary only when they are levied on luxuries which the consumer may or may not use at his choice. Will you please explain to me how they can be considered voluntary?

A.—Voluntary in the sense that he can buy whatever he likes. As I said, take a lace turban, the man may purchase it or not. If the cost is too much he may purchase only one, instead of two. With reference to excise there is no question of option, because the man is under a temptation that he is not able to resist.

Q.—Taxation of luxuries is optional. Why do you make any difference between the luxuries and the necessaries? Is there any idea at the back of your mind that no one should consume luxuries?

A.—Not at all. I only mean that he has the option in that case.

Sir Percy Thompson. Q.—Take, for instance, consumption of salt, that would not be optional?

A.—No, that would not be optional.

Q.—In the case of tobacco, is there an option?

A.—There is again the question of resisting.

Dr. Hyder. Q.—Take the question of matches and kerosene oil.

A.—I do not think there is any question of luxury at all in this case; they are necessaries.

Q.—You say, "I have no objection to a tax upon entertainments; provided it is levied only on the upper class tickets". You tax, for instance, cinema shows, concerts if they admit by ticket, and you will tax race meetings. Is there anything else that you will tax?

A.—I don't think there is anything else besides theatres, circuses, racecourses, cinemas, etc.

Q.—Suppose a big zamindar is in the habit of arranging singing parties every Saturday, you won't tax him?

A.—If you take that as an objection, you can tax him.

Q.—The point is that the performers get their fee, and thus the admission fee is paid in one lump sum by the host, that is the custom; will you tax in this case?

A.—I don't think such parties are common, except at marriages.

The President. Q.—No country charges entertainment tax except when it takes place on admission by tickets. Private entertainments in other countries are never subject to entertainment tax.

A.—It may be so.

The Maharajadhiraja Bahadur of Burdwan. Q.—Do you think in your part of the country an entertainment tax would, outside the big cities like Madras, give you a very large return?

A.—I do not think in the rural parts you will be able to make anything out of this tax.

Q.—Therefore you will have to limit it to the big cities?

A.—Yes.

Dr. Hyder. Q.—You raise an important issue in Q. 26. You say that "the taxation in this country has not been based on the maxims enunciated by Adam Smith, and the capacity to pay has not always been the guiding principle". This is a startling observation to make. I would like to know on what basis you make this statement.

A.—I am making this statement on the basis of the quotations made in your own questionnaire.

Q.—Then please enumerate first the taxes which violate or offend the canons of taxation of Adam Smith. I want you to consider each tax by itself and then consider all taxes put together. Now then please enumerate them one by one.

A.—Take land tax, it is uniform. It does not make any difference between the man who can pay and the man who cannot pay. On the other hand, those who can afford to pay are left free. If it makes any difference at all, it makes it in favour of the richer man. Take, for instance, the big zamindars, their lands are all permanently settled and they do not pay anything like what they should.

Q.—That assumes that land revenue is a tax?

A.—Certainly. It is partly rent and partly tax. The whole thing has become confused. You wanted me to mention one tax after another; so I have taken land tax as an example.

Q.—I grant, for the sake of argument, that it is a tax; assume that it is a tax, how does it violate the principles of Adam Smith? You say that it makes no distinction between the rich and the poor?

A.—All that I say is that it makes only a distinction against the poor.

Q.—Do you know when this land tax was introduced. It was introduced about 1800 and it is a very old tax. It has been there since the advent of the British rule and before. On the other hand, before 1890, I do not think any country had a system of graduation in its taxation.

A.—Yes. We are now talking about the history. You wanted me to tell you how Adam Smith's principle of equality works, and I have given you the example.

Q.—No. I submit that Adam Smith simply said ability to pay.

A.—Adam Smith talks of equality.

Q.—People in India for a long time thought that the maxim of equality would be satisfied if people paid equal rates, that is to say, if you have Rs. 10,000, and you pay 5 per cent, and I had Rs. 4,000 and pay 5 per cent, there is no difference between you and me in point of equality.

A.—I thought you wanted me to say how these several taxes which are being collected violate the canons of Adam Smith, and I began by saying that so far as equality and ability to pay is concerned, land tax works in favour of the rich and not the poor. So also if you take excise, it is the same thing, the poor man pays.

The Maharajadhiraja Bahadur of Burdwan. Q.—When you say that the land tax works against the poor and in favour of the rich, do you say that because there are different systems of land tax in your province? In permanently-settled areas you will say that the landlords were favoured, perhaps unduly favoured, because they have got to pay a very small sum. In temporarily-settled areas, does not the question which you raise bring in the question of socialism rather than of ability to pay? One man can afford to keep 100 acres of land: another man can afford to keep 5 acres of land, but if the rate is the same, the man with 100 acres of land pays so much, then he is liable to maintain that land, as here also there is the question of ability to pay. Whereas, a small cultivator takes 5 acres of land and pays for it. Therefore, I do not quite follow in such areas what you mean by differential treatment between the landlord and the tenant. I can understand that in the permanently-settled areas, but in the temporarily-settled areas, the rate being the same, I do not quite follow what you mean by differential treatment.

A.—I want to apply the principle of equality of sacrifice to the land tax. If you consider this as socialism, certainly it is right. What I say is that the poor cannot pay the same as the rich.

Q.—What you want to do is, even in temporarily-settled areas where there is a particular class of land which can bear so much taxation, rent or revenue, simply because it is cultivated by the poor man, it should be treated differently from the land which is being cultivated by the rich man. That is socialism *par excellence.*

A.—Certainly. I want to treat all income in the same way.

The President. Q.—You do not propose to vary the rate of land revenue itself, but you propose to introduce the element of progression in another way?

A.—What I want is permanent settlement all through, and then you fix the land tax once for all. After that, if you have income-tax on agricultural incomes, that would clear the way.

Dr. Hyder. Q.—You take the excise duties. They also work against the poor man. Don't you think that your aims are contradictory? You want to discourage drink, that is why the duties are high.

A.—So far as the Madras Presidency is concerned, high prices have not resulted in any substantial reduction.

The President. Q.—What would you call a substantial reduction?

A.—The consumption has been all along 4 gallons per hundred of the population for many years.

Q.—Do you know what the latest report says? Now it is 3.7 against 4.2. Is it not a big reduction?

A.—There has been a rise since then.

Q.—Is there not half a gallon reduction?

A.—But Government say it was due to the non-co-operation movement. From the year before last it has again increased.

Q.—This is the Central Provinces Excise Administration Report. You will see there the rates as compared with other provinces. You will see there is a reduction.

A.—It is in the year 1923, but I think that was a bad year due to the non-co-operation movement.

Dr. Hyder. Q.—Is the aim in excise primarily taxation?

A.—I think that is for the Government to say.

Q.—I was just going to say, Government's policy is to make the liquor as scarce as possible and raise the maximum revenue possible. You discourage liquor in both ways, that is, reduce supplies as much as possible and tax as much as possible.

A.—That was the old policy of 1914. But now I suppose the Local Governments are changing their policy.

The President. Q.—If you look at the latest report of the Bombay Legislative Council, you will see, there was a resolution saying that they will adopt prohibition twenty years hence.

A.—I think they have adopted the rationing method, by which they will come to the stage of prohibition twenty years hence.

Dr. Hyder. Q.—We have taken land revenue and excise, now take salt.

A.—You may take salt, kerosine oil, matches; it comes to the same thing.

Q.—But you say that the taxation in this country has not been based on the maxims enunciated by Adam Smith.

A.—We have dealt with the first maxim: the second is 'certainty'. You have your 30 years' settlements, but you do not know what exactly you are going to pay 30 years hence.

The President. Q.—You know that you have to pay in accordance with your income?

A.—I am only talking about what you are paying to Government, not of the profit you can get from industry.

Dr. Hyder. Q.—There is no country in which people can have the dead certainty of paying the same amount for 30 years: all taxes can vary.

A.—Here your income-tax is varying from year to year.

Q.—There have been all sorts of variations in the taxes in England between 1900 and 1925.

A.—I am not speaking now whether 'certainty' is possible or not; we are only dealing with certain principles enunciated by Adam Smith.

Q.—There is a greater degree of certainty here than in England.

A.—It may be a matter of degree, but even then there is not the certainty. Take the time of payment for instance: the *kistbandi*, which is payment of land revenue, is generally spread over three or four instalments. The first one or two instalments are always payable before the crops are harvested. Sir Charles Todhunter, when he was Finance Member, told us that could not give any relief.

The President. Q.—What you wanted to do was to postpone one or two instalments into the next financial year.

A.—Technically whatever it may be, my complaint is that you are collecting revenue at a time when people are not able to pay.

Q.—If you postpone the payment of an instalment from one year into the next, you lose that instalment for ever.

A.—My contention is that if you collect it within the *fasli* year you are all right.

Dr. Paranjpye. Q.—Now a landlord has to pay it in four instalments at various periods: you only suggest that one instalment should be paid in the next year, i.e., you want to avoid paying one instalment this year.

A.—All I am saying is that instead of collecting it in January, February, March and April, you can collect it in March, April, May and June.

Dr. Hyder. Q.—Would you say that the revenue from customs duty also weights the scale against the poor?

A.—Not all of them: we have only referred to the necessities.

Q.—Income-tax?

A.—It will only affect the richer people.

Q.—What about the taxes levied by the municipality?

A.—It depends on the tax.

Q.—Octroi?

A.—We have no octroi in this Presidency.

Q.—Does the profession tax operate against the poor?

A.—No; it is progressively graduated.

Dr. Paranjpye. Q.—House tax?

A.—I think it is more or less equal and we have exemptions in favour of the poor.

Dr. Hyder. Q.—Local cess?

A.—That is based on land revenue: whatever applies to land revenue also applies to local cess.

Q.—What other taxes offend against this maxim of 'ability to pay'?

A.—Only land tax, the excise and those taxes which are levied on necessaries.

Q.—What would you substitute for them?

A.—I don't say I would substitute anything. With regard to land revenue, I have suggested what I think will be equitable.

Sir Percy Thompson. Q.—Income-tax. You would differentiate between earned and unearned incomes; you would also make an allowance on the basis of the number of members in a family. The difficulty there is that it would probably be necessary to make a good many inquisitorial enquiries.

A.—I have said that there would be some enquiries, but they are not worse than the enquiries we are making at present with regard to income-tax.

Q.—For the purpose of ascertaining a man's income you only deal with the individual: when the question of families comes, wouldn't there be difficulties? Suppose a man says he has 15 children and you doubt his statement, how are you going to verify it?

A.—The local officer who makes the assessment can verify it.

Q.—Will he go to the family and make the enquiries?

A.—He makes them outside: I don't think there will be much difficulty in this respect as people will be very careful and not make wrong statements.

Q.—You say that you disagree with the present system of levying super-tax on companies and that you are in favour of fixing a license fee for the companies and then levy the income-tax on the shareholders. If you do that, isn't there a likelihood that people who get dividends from companies will not declare them?

A.—It is the same thing as income from other sources.

Q.—You would lose a good deal of income-tax.

A.—The difficulty is really a balance of two evils: for instance, in this part of the country the smaller shareholders form a very large number. They are entitled to being paid back what has been collected from the company. So if you take the balance of convenience, it will be fairer to collect it from individuals.

Q.—Suppose you do that, won't you lose income-tax on the dividends which are paid to people who reside out of India?

A.—That is a point you can legislate for.

Q.—You cannot tax non-residents unless you tax them at the source.

A.—Anything earned here can be taxed here.

Q.—Suppose a registered company has all its shareholders foreigners: at the present moment you charge income-tax on the profits of the company and leave the company to deduct that income-tax from the dividend it pays to those foreigners. Suppose we adopt your suggestion and you do not charge income-tax on the company at all, how are you going to get that tax from the foreigners?

A.—Whenever they send money out of India, you can make the company responsible for deducting income-tax and paying it to you. If there

is no agent for receiving the money in India itself, you can treat the secretary to the company as the agent for the remittances he makes outside the country.

Q.—And make him pay at the highest rate?

A.—At the rate at which the assessee will have to pay.

Q.—Even then, you lose the tax on the portion of the profits which is not distributed as dividend?

A.—If it is converted into capital account, they will have to pay.

Q.—They don't.

A.—There was a Privy Council decision to the effect that what is converted into shares will have to be treated as profits.

Q.—I think the decision was the other way.

A.—That cannot be made a reason for taxing the people whom you do not intend to tax. What practically results from the present arrangement is that a large number of people whom you do not want to tax are now paying taxes simply because you collect from the company and those people do not get repaid. You cannot expect people from villages to go to your headquarters to get a refund.

Q.—How many people from villages hold shares in companies?

A.—Heaps of them: in the Coimbatore district, there are 150 registered companies.

Q.—But who are the shareholders?

A.—Mostly poor people. The capital of a company would be about a lakh of rupees and you will probably have 500 subscribers: there would only be few people in each company who are liable to pay tax.

The President. Q.—You advocate a complete salt monopoly?

A.—Yes.

Dr. Hyder. Q.—Do you think you could get good salt if salt were manufactured by Government?

A.—I may say that I have no idea of the quality of salt supplied by private companies: I am only speaking theoretically in this matter. Since the cost of production is very low, I think it better that Government itself should undertake the manufacture and sale of it. I don't know anything about the actual working of the system.

The President. Q.—Do you live in an area where Bombay and Madras salt come into competition?

A.—No.

Q.—You used to get lots of Bombay salt?

A.—No, not now.

Q.—Which do the people of Coimbatore prefer?

A.—They have been getting salt from Madras.

Dr. Paranjpye. Q.—White salt?

A.—No, we get the heavier salt.

The President. Q.—Can you give us any idea as to what the number of measures to a bag is?

A.—I don't know anything about the actual sale of salt.

Q.—Do the common people in your district understand the fact that duty is levied by weight, whereas the sale is by measure and, therefore, the more measures you get to the maund, the greater the profit of the retail dealer?

A.—No.

Q.—If you were told that the people of your district demanded a light salt, would that be true?

A.—I do not know anything about the actual trade.

Q.—You buy salt for your own consumption: what considerations determine your preference for one salt as against another?

A.—That depends on the man who goes to the bazar: my clerk goes and gets it. I have no preference for one salt over another.

Q.—Don't you use white salt for special preparations?

A.—We only purchase one salt.

Q.—You don't use European white salt?

A.—No.

Q.—If that were available in bulk in the market, would any one buy it?

A.—I don't think so. People are more in favour of the heavier salt, because they think it gives them better result: it is much more saltish.

Q.—In order to make up the loss of revenue if prohibition were adopted, you would advocate a graduated succession duty, if necessary, a tax on agricultural income above Rs. 5,000 and a totalizator duty. Do you think you would get from these anything approaching the present excise revenue?

A.—There is the imperial contribution also. I want a large portion of that to be earmarked to meet the loss from excise revenue.

Q.—Suppose the contributions were all paid off and you started afresh?

A.—That is another matter: we have to take things as they are. Out of 348 lakhs of rupees, I would ask for about 200 lakhs to be earmarked for the loss of excise revenue, and we have to find another 300 lakhs.

Q.—How will you find this 300 lakhs?

A.—I have suggested taxing agricultural incomes: I suggest that a gross income of Rs. 5,000 or a net income of Rs. 2,000 may be taken as the exemption limit.

Dr. Hyder. Q.—You would keep land revenue and on the top of that tax agricultural incomes?

A.—I want a permanent settlement of land revenue, bring all districts to the same level and on the top of that put a tax on agricultural income.

The President. Q.—You would extinguish all increase of land revenue?

A.—Yes; that will be based more on the principle of equality of sacrifice.

Q.—You will still have to find 3 crores out of succession duty which would fall largely on landholders?

A.—Nobody can complain.

Q.—You have been telling us that the excise duty is being levied on the poorer classes?

A.—I suppose others will be prepared to make some sacrifice.

Q.—If you introduce a taxation measure, do you think you would have any support?

A.—I am not sure.

Dr. Hyder. Q.—These poorer classes form part of what are called the untouchable classes?

A.—No; I don't make any distinction between the untouchables and other poorer classes.

Q.—Isn't the excise revenue mainly derived from the untouchables?

A.—No; the other labourers also pay it. Of course, the untouchables contribute a larger amount.

The President. Q.—Have you considered the possibility of ever enforcing prohibition?

A.—I think it ought to be possible: America has shown the way.

Q.—Has America succeeded in enforcing prohibition?

A.—There are some people who think they have succeeded very well and some others who think they have not. We only find that there are some other countries which are prepared to follow America.

Q.—On the other hand, aren't there some other countries who have tried the experiment and given it up on the advice of the very people who introduced the experiment?

A.—I don't know. I think that recently New Zealand, Norway or Sweden and one other country wanted to follow the lead of America.

Q.—Are you aware that prohibition in New Zealand is confined to consumption on the premises?

A.—No.

Q.—The number of liquor shops in proportion to the population in New Zealand is four times as many as in Madras.

A.—I don't know how they are working it. Before we undertake total prohibition, we will have to study all these. We are now only starting.

Q.—Have you studied the official statistics of America? Would you accept the official statistics?

A.—I have not seen the official statistics: I have only seen the statistics which appear in some of the journals.

Q.—If the official statistics showed that drunkenness was increasing, would you be prepared to reconsider your opinion?

A.—If I were satisfied that it was not possible to introduce prohibition, I will certainly revise my opinion.

Q.—As regards the reduction of consumption in this province, will you be good enough to give us your figures? You say there has been no reduction of consumption?

A.—The official report shows a consumption of 4 gallons per hundred.

Q.—Here is the official report which shows that there has been "a reduction from 4.4 proof gallons per hundred of the population in 1913-14, and 4.9 gallons in 1919-20 to 3.7 proof gallons in 1923-24, and a further fall in consumption in the current year as compared with 1923-24."

A.—We will have to take all these together. If there is a fall in the consumption of arrack, the consumption of foreign liquor increases: in some places it reacts on the toddy. My own impression is that there has been no reduction at all.

Q.—Are you prepared to accept the official figures?

A.—Yes, my statement is based on official figures.

Q.—You have had some endeavours made in this province towards prohibition in the last few years?

A.—Not by Government.

Q.—Were not all shops closed in Salem?

A.—They said that they closed them within the municipality, but just outside the municipality we had a number of shops.

Q.—Haven't you got prohibition for the hill tribes in the Nilgiris?

A.—You simply say you should not sell to the Badagas.

Q.—Haven't you prohibition of arrack in the Tenkasi taluk and in two or three taluks in the Tanjore district?

A.—In five or six taluks they have closed arrack shops, but they have toddy shops working.

Q.—Haven't you prohibition in the Agency tracts?

A.—I don't know.

Q.—You are not satisfied with these endeavours at prohibition in directions which seem most feasible?

A.—They are mere experiments and these experiments have so far failed. I want the policy to be tried everywhere in such a way that they might automatically reach the goal of prohibition, if possible, at the end of a certain period.

Q.—You say that a reclassification of the several items in the Stamp Act and a variation in some of the rates will be more scientific. You want mercantile transactions to be charged less than others?

A.—Yes.

Q.—On the other hand, does not the Stamp Act date from a time when the bulk of the transactions were those relating to land?

A.—Yes; the difficulty is this; if you take stamps, the value of the land and other things are taken together and taxed at the same rate. But

mercantile transactions change as they are for short terms. An ordinary mortgage will stand for a long time, sometimes for ten or fifteen years. You cannot charge both mercantile transactions and mortgages at the same rate.

Q.—Should a share transfer pay less than a mortgage on land?

A.—I think so.

Q.—You say that "gifts, bequests and inheritance should be charged a higher tax than transactions for value"?

A.—Yes.

Q.—What sort of relation should one bear to the other?

A.—You can easily double them.

Q.—As regards court-fees, we have a regressive graduated duty. In the case of suits for value, would you make it progressive?

A.—There again there is a conflict between two principles about the actual cost of the services you render and ability to pay. You will have to put it in such a way that for the lower amounts, at any rate up to Rs. 2,000 or Rs. 3,000, people should not pay quite as much as they do at present.

Q.—When you get to higher amounts, would you make them pay more?

A.—No. For instance, in the case of land suits your classification is on the basis of ten or twenty times the land revenue: that works a great deal of inequality, because if land is worth Rs. 3,000 or Rs. 4,000, he pays a court-fee only on about Rs. 400.

Q.—Even twenty times is too low?

A.—Yes.

Q.—Apart from that, would you make the rate on the higher values proportionately higher than the rate on the lower values? That is, if it is 1 per cent on Rs. 1,000, let it be 2 per cent on Rs. 2,000, 3 per cent on Rs. 3,000 and so on.

A.—Some system based on the actual time taken should be introduced, because when the amount is large, you will have to go to a superior court.

Q.—Would you have a graduated hearing fee?

A.—Yes; a sort of hearing fee. For instance, if it is a contested suit, it will go on for many days, though it is valued at six annas.

Q.—You have a very large experience of the courts?

A.—Yes.

Q.—You think a hearing fee would be practicable?

A.—What I suggest is this: even if you do not base it on the actual number of days taken, on the *ex parte* suits you can fix it at one-third of the rate, money suits at two-thirds, and contested land suits at the full value.

Q.—You would not actually impose a hearing fee?

A.—A hearing fee will be difficult to work in the mofussil, because the number of suits, especially small cause suits, is very great. For instance, you may have 3,000 small cause suits, and it will be difficult to have any hearing fee on these 3,000 suits. It is for that reason that I suggest a differentiation—*ex parte* suits, money suits and land suits.

Q.—Do you regard court-fees as a payment for services rendered?

A.—Yes.

Q.—Roughly, it should not be more than the cost of the service?

A.—No; it should not be.

Dr. Paranjpye. Q.—With regard to the court-fees, it was suggested to us that the services rendered are not actually the passing of the judgment, but they include the placing of the whole resources of the State behind the judgment, and in seeing that justice is executed. It is not only the work of the judge that is involved.

A.—But for the fact that there is the State, I do not think anything can be done.

Q.—Therefore, the service rendered is not the mere passing of the judgment?

A.—But there is this thing also; in our country justice was always considered to be free. It was one of the duties of the monarch or the king of the time being to dispense justice to his people for no consideration. So that, anything that you fix now ought not to be more than what you actually spend on the particular service. Otherwise, it will affect the deep-rooted sentiment of the people.

Dr. Hyder. Q.—You say that in the old days justice was free. May I know whether in the old days every man's case could be taken directly to the ears of the Raja?

A.—Yes; the Rajas were only small men. There was not one European for the whole of India. And even if there was one, there were also the smaller Rajas who would ordinarily dispense justice.

Q.—Were there appeals against their orders?

A.—They had their own way of doing justice. No doubt, the system has changed now.

The President. Q.—With regard to registration fees, don't you get a service besides the mere writing of the document? Proof of title, for instance?

A.—Yes.

Q.—If you are to go to a lawyer as in England to have the proof of title established, it costs you more.

A.—I have no idea what they charge.

Q.—Is it not right that when the Government performs a service of that sort, they should charge a reasonable amount for it?

A.—They are doing service; and for that service, whatever they spend, let them take. I do not want that Government should be out of pocket.

Q.—Should they not take anything for enabling the particular individual to prove the title?

A.—What they spend, let them take. Do you want to have some profit?

Q.—Yes.

A.—I do not think that Government should look for profit in these things.

Q.—It is a duty on transactions.

A.—If you view it in that light, it is altogether different. For instance, there are some who want to have taxation on litigation. That is quite a different matter. It is introducing a new thing altogether. But as circumstances stand at present, I would say that Government should not make any profit.

Q.—With regard to land revenue, you have already told us that your plan would be to standardize the existing rates and make them permanent and impose income-tax on agricultural incomes.

A.—Yes.

Q.—You say "The present system leads to inequality for various reasons, one of them being the average taken of the prices ruling over different periods". Have you facts to show the inequalities? We had some figures given by the Board of Revenue which indicate that there is not much variation.

A.—I have not brought the figures here, because I thought it was an admitted fact.

Q.—But the Board of Revenue takes the other view. They say that there is no material difference.

A.—If you see the settlement reports and work out the thing, you will find it.

Q.—That is what they have done.

A.—If you take the average prices in the settlement reports, you will find there will be difference. That is natural.

Q.—You say "I will leave the imposition and collection of land revenue (in towns) to the local authorities".

A.—I am against duplication or triplication of agencies.

Q.—Can you depend on the local authorities to impose a sufficiently heavy rate? May we take it from you that land in towns is one of the sources of wealth is at present exceedingly lightly taxed?

A.—You cannot always say that. In some places it is not at all really lightly taxed. For instance, in some places there has been a grievance with regard to the ground rent that has been fixed.

Q.—In some cases there may be ground rent and in others there is nothing?

A.—Yes; that is what I say.

Q.—Suppose you leave it to the municipality to charge a big rate that would level up the whole thing. Could you depend on the municipality to do it?

A.—Even the Government has to do it sometimes. And even the Government cannot impose a high tax all in one lump. If the increase is too heavy, they have to give up part of it and municipalities are no exception to that.

Q.—Do you, as one having large experience of municipal taxation, think that when the Government retire from the taxation of land in municipal towns, the municipality would increase the rates? Or would they give the benefit to the rate-payers?

A.—If it is a tax which goes to the local authority itself, no doubt you can depend on them, because it will have to find money for its own expenditure. But if the tax is to be collected on behalf of the Government, probably you cannot expect the municipality to do that sort of work.

Q.—You propose to pool all toll income and distribute it on the basis of the length of roads?

A.—Yes; it is for the purpose of avoiding the difficulty of having too many gates. For instance, every municipality wants to have a toll gate and in many places you have got municipalities within a few miles of each other. There was recently some difficulty with regard to Saidapet and Madras municipalities.

Q.—Can you abolish municipal tolls? You have got carriages inside the municipal limits which pay a tax to the municipality, and you won't tax carriages coming from outside the municipality and using the municipal roads.

A.—A very large portion of the roads is maintained by the local board and not by the municipality.

Q.—I am speaking of the roads inside the municipality. Suppose you abolish the municipal tolls?

A.—Then your carriage tax will be a luxury tax.

Q.—But the man who kept the carriages just outside the municipal limits would not be liable to the carriage tax and he will be able to use the roads paying no toll.

A.—Yes; that will be the case.

Q.—And all the people with carriages will move their establishments outside the municipality.

A.—Yes. There is a sort of confusion. It is partly a tax for using the roads and partly a tax on luxury. A man who can afford to keep a motor car or carriage is taxed for keeping it.

Q.—I think the difficulty about abolishing the municipal tolls is, as you have indicated, making it free for people coming from outside.

A.—I do not think there will be any real difficulty.

Dr. Hyder. Q.—In other parts of India you don't have these toll barriers. How is it that the municipal bodies in the Madras Presidency cannot keep up their roads without them?

A.—The income from tolls is a very large amount here.

The President. Q.—In other parts of India you have the octroi.

A.—It may be.

Dr. Hyder. Q.—The octroi replaces the house-tax. We do not have the house tax in Northern India, whereas here you have that tax.

A.—I do not know much about that.

The President. Q.—You say in rural areas objection is taken to profession tax?

A.—Yes.

Q.—And you propose to give way to that objection?

A.—In some places we had to give way, because the amount collected is small.

Q.—Is it not right that the non-agriculturist should pay something corresponding to the land cess?

A.—We have not got many cases like that.

Dr. Paranjpye. Q.—The petty shopkeepers?

A.—I do not think they come under the profession tax. Their income is not considerable.

The President. Q.—But the petty ryot has to pay something, however small his income may be. Should not the petty shopkeeper also pay something, whatever his income may be?

A.—But the difficulty is that the limit of exemption for profession tax is at Rs. 30. The petty shopkeepers who get Rs. 30 are not many. I have no objection to collect it where there are a large number of people liable to the tax. I do not want to trouble these people when there is not much to collect from them.

Q.—You think it is not worth collection?

A.—Yes; further it creates a sort of heart-burning.

Dr. Paranjpye. Q.—You are in favour of a tax on tobacco?

A.—Not exactly that; if you want money so very badly and you must get it by taxing some thing or other, then I say tobacco would be suitable. But ordinarily, I am much against taking away the freedom of the man to cultivate what he likes. And this taxing of tobacco will, no doubt, create some heart-burning among the people. In some places, especially in Godavari, the people will object to it. It must be taken up only as a last resort.

Q.—You prefer an acreage duty?

A.—Yes; that, I think, is the least objectionable.

Q.—But lots of people have only small patches of tobacco cultivation and it will be rather difficult to charge an acreage duty.

A.—I do not know the conditions in the other provinces. But so far as this province is concerned, I think you can have an acreage duty.

Q.—Would you fix any limit to private possession?

A.—No.

Q.—You will tax every leaf?

A.—Under my proposal you don't take the leaf into consideration at all, that is, when you have an acreage duty. In this province, I do not think there are people who cultivate less than an acre.

Dr. Hyder. Q.—Don't you have this condition, that with the help of night-soil manure small patches are cultivated with tobacco?

A.—Tobacco is cultivated extensively here. In my own district of Coimbatore, you have got large areas cultivated with tobacco.

The President. Q.—In your district it is a favourite garden crop?

A.—Yes. In Godavari district, for instance, there are *lankas* largely cultivated with tobacco. And even in the Nilgiris they have some acres of tobacco cultivation.

Dr. Paranjpye. Q.—What do you say to a monopoly of vend in definite areas?

A.—I do not think anybody will agree to it at all. Why should you have an exception in the case of tobacco?

Q.—Just like liquor.

A.—If you think it justifiable to treat tobacco in the same way as liquor, that is another matter.

Q.—We do not restrict the number of shops dealing in tobacco. We give the monopoly of vend to one man and let him open as many shops as he likes, selling the monopoly by auction.

A.—I think it will lead to very great difficulties. Because, all classes of people use tobacco. Probably, so far as the number is concerned, it will

be the same as the number of people who use arrack and toddy. But in the case of tobacco, it is distributed more evenly among all castes and all classes of people.

Q.—They will go to the shops of the licensed vendors.

A.—Then you will have to license every shop.

Q.—No; we shall give the monopoly to one particular vendor and he will appoint his own men.

A.—What are the growers to do? They will have to sell only to the licensed vendor?

Q.—Yes. They have to sell either to the licensed vendor of his area or to other licensed vendors.

A.—All that will introduce a number of complications.

Q.—That is very common in certain parts of India.

A.—I do not know whether tobacco cultivation is so widespread there as it is here.

The President. Q.—Would it create great difficulties to the cultivator, if you give the license for a nominal fee to a person engaged in wholesale or export trade, so that the cultivator can sell either to the wholesale dealer or exporter or to the licensee of his own area or the licensee of another area?

A.—Now we have got various methods with reference to the curing and sale of tobacco. In some places what they do is this: a fortnight before the harvest merchants come and buy the crop on the field. Then they take it to other places and sell it there.

Dr. Paranjpye. Q.—There is no objection to that. Only a license has to be taken.

A.—Then what is your object?

Q.—You will get a fee for the license and a fee for the monopoly of retail vend.

A.—I think it will affect both the trade and agriculturists. There are now a large number of petty shopkeepers who are entirely dependant on the sale of *beedies*, cigarettes, etc.

Q.—They will make their own arrangements with the licensed vendors.

A.—That means you will make it more costly.

Q.—If you put on a tax, in whatever form it may be, you are bound to make it more costly. The difficulty about the acreage duty is that in other parts of the country, the patches cultivated with tobacco are very small, and it would be very difficult to find out and assess them. Again, the yield on various soils is different, and the duty that would be suitable to one class of soil would not be suitable to another class. What is a light duty in the case of one, would be very heavy in the case of another.

A.—Yes, I agree there will be some inequality; but I think that the acreage tax is the least objectionable.

Q.—But the system I suggest is actually in force in various places.

A.—I have not studied it.

Q.—It is in force in Patiala and they derive 14 lakhs of rupees as revenue from the monopoly of vend.

A.—It may be possible. But so far as I gather, I think it will involve many complications and difficulties here. As I said, many of the petty shopkeepers depend on *beedies*, cigarettes and things of that sort for their very existence; and if you insist on their taking out a license, then it will work hardship on them.

Q.—They will make their own arrangements with the monopolist.

A.—Of course, it means the same by whatever name you call it. They will have to pay something.

The President. Q.—But under your plan he will have to pay more, because the cultivator will charge more.

A.—I do not think a rate of Rs. 10 per acre will make a large difference, considering the income from tobacco.

Dr. Paranjpye. Q.—With regard to Q. 141, you have been just talking about equality of taxation and you propose to exempt the joint family property altogether from death duties, so that you are going to charge death duties only on non-Hindus?

A.—It is not exactly that. I mention in another place that the lineal descendants would have to be exempted. The joint family of Hindus as well as the lineal descendants of other people will have to be exempted.

Q.—Absolutely?

A.—Yes.

Q.—Then you do not get anything at all. I should consider that about 75 per cent of the property goes in succession to the children of the deceased and consequently you won't get very much. I quite agree that the duty should be charged at a higher rate to persons who are not lineal descendants. I can quite understand if you say that the duty should be based on the degree of relationship. But if you exempt all lineal descendants, whatever may be the size of the estate they inherit, probably you destroy the whole scheme altogether and there will be nothing that you can get out of it.

A.—You cannot say that there is nothing left. No doubt, the amount may be small.

Q.—At present other communities have to pay some kind of death duties because they have to take probate, for instance, the Christians, the Jews.

A.—They do not.

Q.—We were told so yesterday by the Administrator-General.

A.—I do not know. But as a practising lawyer, I know they do not take probate generally. Only when they want to go to a court do they take probate.

Q.—Estates below Rs. 1,000 are dealt with by the Administrator-General, and for others they have to take a probate or letters of administration or a succession certificate.

A.—Of course, if you want to prove a will, that is another matter. When there is no will and when it is an ordinary case of succession, for instance, among the Christians, they do not take it at all. In practice, I do not think they will take it unless they have to go to the court or the debtor insists on it.

M.R.Ry. Rai Bahadur N. GOPALASWAMI AYYANGAR, B.A., B.L., Registrar-General of Panchayats, Madras, was next examined.

Written memorandum of Mr. Gopalaswami Ayyangar.

It is impossible for any student of public finance to pronounce on any scheme of taxation—its equity and its accord with economic principles—without reference to the scheme of public expenditure which such taxation is intended to finance. The exclusion of public expenditure from the purview of the Taxation Enquiry Committee is bound to invest its conclusions with an academic and unreal air. If it cannot examine the adequacy of the resources of different governing bodies, how can it indicate the theoretically correct distribution of taxes between Imperial, Provincial and Local? Supposing the theoretically correct distribution gives one governing authority much more than it needs and another much less than it requires, is the discrepancy to be perpetually adjusted by a *matricular* contribution? Again, in public finance there is nothing like a theoretically correct distribution of taxes between grades of Government. The suitability of a tax for a particular grade of Government is often a question merely of whether it can be efficiently assessed and collected by that grade of Government.

2. No proposals for the readjustment of tax resources are likely to be of any practical use, unless they are related to proposals for a readjustment of functions and expenditure.

3. The examination of the present distribution of functions between Imperial, Provincial and Local, particularly between Provincial and Local and between the different units of local government, has an important bearing on the capacity and willingness of the people to bear additional tax burdens. An addition, for instance, to the land revenue for provincial purposes will be unhesitatingly condemned; an enhancement of the land cess for Local Board purposes may be acquiesced in reluctantly, if the expenditure cannot be met otherwise. A pretty stiff extra burden on land would be willingly submitted to, if the function is decentralised to a village authority and the money raised by that authority is spent in the village itself.

4. The problem of estimating the distribution of the burden of different taxes on different classes of the population is a difficult one. Estimates of the total national income considered along with estimates of the cost of realising a reasonable standard of comfort for the nation as a whole give us a rough idea of the resources available for the purposes of Government. The average annual income *per capita*, provided it can be arrived at without being too remote from the actuality, gives some indication of the economic condition of the people taken as a whole. Statistics giving the number of persons earning incomes of different amounts, when studied along with the expenditure of typical families earning such incomes, are useful for gauging the distribution of the existing tax burden and of the capacity of different classes to bear further taxation. The collection of reliable facts, their analysis and the drawing of reasonable inferences from them are, however, matters of extreme difficulty and require a great deal of organisation and labour, spread perhaps over three or four years.

5. The 'production' method has been largely employed so far in this country in making estimates of total and average (*per capita*) annual income. About 40 per cent of the estimates—relating to non-agricultural income—is frankly guess work and I can find no justification, either in theory or in any detailed investigation carried out in a specified area, for the formula on which the guess is made. The remaining three-fifths also include a very large margin of guess work. The estimate is arrived at by multiplying the area under crops by the outturn. While the area is more or less accurate in regard to Government villages, it is not by any means reliable in the case of most zamindari areas. Outturn is largely guess work everywhere. The guessers are—many of them—ignorant even of what the *normal* represents, and the percentage of the normal which they enter in the cultivation account, often-times without even looking at the standing crops, cannot be treated as reliable.

6. Such statistics as are available at present are both inadequate and untrustworthy for estimating either taxable capacity or the distribution of the present burden of taxation among the different classes of the population.

7. The Indian-tax system has been of haphazard growth. Historical rather than scientific reasons explain its present condition. The theory that all revenues are the property of the Secretary of State in Council represented by the Government of India in this country has had not a little to do with it. In the constitutional adjustments that resulted from the Government of India Act, 1919, the Central Government which was entrusted with limited non-expanding functions obtained not only all the existing expanding sources of revenue but all residuary powers of taxation; while the Provincial Governments charged with the administration of rapidly developing departments of national activity were left with tax resources, both limited in number and mostly non-elastic in character. In readjusting the distribution of resources between Central and Provincial, two points seem to me to require attention:—

(1) The giving of elasticity to provincial resources.

(2) The transfer of the residuary powers of taxation from the Government of India to the provinces. It is the tax resources of the Central Government, and not those of the Provincial Governments that ought to be scheduled.

8. In the Province of Madras, the three items of land revenue, excise and stamps account for seven-eighths of the total revenue. Land revenue, as at present levied, does not increase except by about 1 per cent annually. The extinction of excise revenue altogether is threatened. Though this threat will remain idle for many years to come, we have to take note of the fact that the revenue from excise will not be allowed to grow; on the other hand,

it is not altogether unlikely that we shall have to face the contingency of a substantial fall in the receipts. The revenue from stamps appears to have reached the limit of elasticity; the clamour is growing in volume and strength for the undoing of the enhancements that were introduced over two years ago. The increasing remission of contributions to the Central Government which has been promised will stave off the evil day for a few years, but there is no escaping the problem at the end of this period.

9. The three most important taxes levied on behalf of the Central Government, viz., customs, income-tax and salt, are every one of them elastic. I include salt deliberately. The question of whether, in the present condition of Government of India, Finance, it is necessary to retain the salt duty at all or to levy it at the rate of Rs. 1-4-0 a maund is one whose decision should be guided by purely budgetary considerations. The tax is at present intensely unpopular mainly for political reasons, and political objections to a tax are not factors which can be ignored in financial policy. Nevertheless, from the standpoint of financial principles, the salt duty is a legitimate source of revenue for the State and is a financial reserve of considerable elasticity.

10. It seems to me that with a view to invest provincial resources with the necessary element of elasticity, it is desirable to transfer one of these three items to the provinces; and, of the three, income-tax appears to be the most appropriate for transfer. I refer however only to the ordinary income-tax. Super-tax which is levied in addition to income-tax on incomes in excess of Rs. 50,000 may for the present continue to be a central source of revenue. I do not consider that the administrative objections to making income-tax provincial or the other objections based on the fear of multiple taxation as between different provinces on the same income are by any means insuperable.

11. The provincialisation of income-tax is also imperative in the interests of a proper remodelling of the taxation of land. It will be difficult to carry out the remodelling which I suggest below if income-tax continues to be a source of central revenue.

12. I agree that the exemption minimum in the case of income-tax may be reduced very considerably. But this is more likely to be agreed to after the tax is provincialised and will become inevitable if, as I indicate below, a portion of the existing land revenue should come to be recovered in the shape of an income-tax on agricultural incomes.

13. Land revenue proper is a tax. It is not rent, nor can it be said to be partly rent and partly tax. It is a tax on the annual value of, or the income from, landed property. The rate of the tax, as compared with taxes imposed on the income derived from other forms of assets, is so heavy and the methods of levy so indefensible that people have taken refuge in designating it a rent. That land revenue in its present form is an old tax is not an argument against an attempt to remodel it on modern lines and on sound financial principles.

14. I would suggest that land revenue as at present assessed should be replaced by—

(a) a tax on the capital value of land, *and*

(b) a tax on agricultural incomes.

Neither of these by itself could replace land revenue or be justified on considerations of equity or principle. Even when both are levied together, the proceeds are bound to be smaller than the present receipts from land revenue, and, assuming that other things will remain equal, the discrepancy has to be made good in some other way.

15. Land revenue proper at present is derived from both dry and wet lands. The wet assessment is, in theory, the dry assessment *plus* a charge for water. The first step to be taken is the separation in the case of wet land of the charge for water. In other words, the taxation of land should have reference to its unirrigated condition. Irrigation facilities constitute an improvement, and a tax on capital value should as far as possible exclude improvements. Wherever irrigation works are the property of the State and are maintained by them, it is only reasonable that a charge should be levied for the water supplied therefrom. But it is only that portion of the additional value imparted to land which is not due to improvements effected at the cost of the owner or to the existence of irrigation facilities for the utilization of which a separate charge is annually levied that should be laid under contribution through the tax on capital value.

16. The rate of this charge for water should not be regulated primarily on considerations of the needs of the State or on the principle of maximum squeezability. The supply of water for irrigation should be treated as a semi-commercial undertaking, and a reasonable commercial return should be the aim in fixing the rate.

17. The capital value of land should be taxed at a low percentage. The actual percentage to be fixed cannot be proposed without a detailed investigation of how different rates would work out financially. At the outset, the governing consideration should be not to exceed the present dry rates per acre. Valuations of land will have to be made periodically. The determination of this period is a matter of some difficulty. To start with, an interval of 15 years is not unsuitable for rural areas. Provision should be made for eliminating extraordinary rises or falls in value due to abnormal causes. The average price of land of different qualities over a series of ordinary years or the lowest price in any one of the last 5 of the 15 years between one valuation and another—these are alternatives which may be considered in connexion with the legislation that may be necessary. The tax should be laid on the capital value of unimproved land, and with a view to exclude the taxing of that portion of the capital value which is attributable to capital spent on the land by the owner, improvements will have to be carefully defined. The valuations of land alone should occur at intervals of not less than 10 or 15 years, whatever the period decided on may be. The rate of tax, i.e., the percentage of the capital value to be taken from the owner, should be variable from year to year according to the needs of the Provincial Government, the rate being fixed by the Legislative Council, with sole regard to budgetary requirements.

18. The value of land should be estimated at each revision with reference to local inquiries and to registered documents of sale and mortgage relating to the period between one revision and another. The institution of a system for the recording, by a duly constituted statutory authority in the village, of rights in land and the better utilisation of registration offices, for furnishing information relating to land prices, should greatly facilitate these periodical valuations.

19. The tax on capital value should not be looked upon as an attempt at measuring the taxable capacity of the person paying it. It might be looked upon by some as the assertion of 'the ancient seignorial claim of the State invariably recognized as a liability and as an obligation attaching to rights in land throughout the country'. Others may perhaps interpret it as an expression of the view that land should be an item of nationalised property in India. It is briefly and simply a form of property tax—an attempt to make every owner of landed property contribute to the needs of the State.

20. The tax on agricultural incomes should be regulated on the same lines as the tax on other incomes with an exemption minimum and rates graduated progressively for incomes above the minimum. It will be possible, and fully justified too, to reduce the exemption minimum from Rs. 2,000 at least to Rs. 1,000 as soon as income-tax is provincialised and agricultural incomes are also allowed to be taxed under it.

21. The remodelling of the land revenue suggested above has reference primarily to the ryotwari tracts. The question of how zamindari areas should be dealt with presents certain peculiar difficulties on account of the nature of their tenure and the historical commitments connected therewith. The substitution of the tax on capital value for the *peshkash* is bound to be attacked as a breach of the solemn covenant entered into at the time of permanent settlement. Even if the *peshkash* has to be retained, the tax on agricultural incomes should in any case be extended to zamindari areas.

22. The suggestions made above as regards the provincialisation of income-tax and the remodelling of the land tax are based on what, in my opinion, are theoretically correct considerations. Their practicability cannot be pronounced upon without an examination of the distribution of functions and expenditure between the Central and Local Governments and of the adequacy of the readjusted resources to the readjusted expenditure. Assuming that the present distribution of functions and expenditure is not disturbed, the Government of India will have, under the proposals made above, to face a diminution in their existing resources roughly of 13 crores under income-tax, and of about 6½ crores more under remission of provincial contributions. To the latter diminution, they are already committed. For making up the former, the two principal heads on which they have to rely are customs and

salt. The former possesses a great deal of elasticity even after the increases put on during the last three years; and, as the economic condition of the country improves and after a responsible Minister comes to be in charge of the finances of the Government of India, the use of the salt duty as a financial reserve is not likely to meet with opposition. But if, in spite of these possible adjustments, it is found that the Government of India cannot afford to part with ordinary income-tax without some compensation, the transfer of revenue from stamps (non-judicial) from provincial to central is worth consideration.

23. So far as this province is concerned, the provincialisation of ordinary income-tax will bring in about 1.35 crores and this, coupled with the 2.2 crores, which will result from the remission of the balance of the provincial contribution, ensures extremely favourable conditions for undertaking the remodelling of taxation of land. The income from non-judicial stamps for the year 1925-26 is estimated at .93 of a crore, and Madras can ill-afford to spare the whole of this amount. One solution will probably be to let the Government of India take out of this the amount which was accruing prior to the enhancements sanctioned by the Provincial Legislature. It is however not of much use at this stage going into the details of these minor adjustments.

24. The overhauling of the local taxation system will have to follow that of provincial taxation. Local authorities should be given the liberty—subject to maxima to be fixed by the Legislature—to levy *centimes additionnels* on the chief provincial taxes, viz., the tax on the capital value of land, the provincialised income-tax and excise. As for resources over and above these, attention is invited to my answers below to the Committee's questions on local taxation.

25. I would, however, emphasise two points in connexion with local taxation:—

(a) The tax jurisdictions of Local Government should be as few as possible.

(b) The widest possible freedom in the matter of choice of taxes and the fixing of rates should be given to the smallest of these tax jurisdictions. The narrower the limits of the tax jurisdiction, the more clearly are the benefits of the expenditure of a tax realised, and the greater therefore is the willingness of the people to submit to further taxation.

The village panchayat in this Presidency has this freedom under the law and I attach for the information of the Committee a list of the taxes and fees which on the intiative of panchayats have been sanctioned and are being levied in panchayat areas.

26. My answers to the Committee's questions bearing on local taxation are herewith appended and I desire only to add that such views as I have given expression to either in this memorandum or in the answer to the questionnaire are my own and are not put forward as representing those of the Ministry to which for the time being I happen to be attached.

Q. 106.—The 'usual' classification of services administered by local authorities into national or onerous and local or beneficial will not stand examination. A service which is both national and onerous should, properly speaking, be within the jurisdiction of the State and not of the local authority. If, for convenience sake, its administration is entrusted to a local authority, it does not and should not follow that the financing of the expenditure thereon should be met out of local resources. In such a case, the local authority would really be acting as the agent of the Central Government, and the principal should obviously put the agent in funds for discharging his functions. The maintenance of trunk roads is in this province the outstanding illustration of such an agency function.

From the standpoint of the relationship of the rate-payer towards the tax-payer in respect of the financing of the services ordinarily administered by local authorities, such services are, with less objection, classified into—

(a) *semi-national*, or those the expenditure on which ought to be shared between the rate-payer and tax-payer; and

(b) *local*, or those the expenditure on which ought to be wholly borne by the rate-payer.

These two classes are, in the ultimate, not mutually exclusive, for it is possible to hold the view that there is no service administered by a local authority in which the nation is not, at least in a remote or indirect way,

interested. The classification is useful for certain purposes and is based upon the relative emphasis placed upon the nation's interest in the local administration of particular services.

A local authority has thus to find resources for meeting—

(i) its share of the cost of semi-national services, and

(ii) the whole of the expenditure on local services.

Both semi-national and local services are beneficial to the locality and the citizens residing therein. In the case of some of them, it is possible to measure approximately the benefit conferred on individual citizens; in the case of others, this is not possible. In other words, the expenditure of a local authority—whether on a semi-national or a local service—may be classified into—

(i) that which confers a special measurable benefit on the individual, for which a *price* should be charged on the individual benefited; and

(ii) that which confers a benefit collectively on all citizens in a particular locality—rather than a benefit on individuals taken separately—in which case the levy of a tax would be justified.

The foregoing considerations are sufficient to indicate that it is not possible to agree that the main criterion in local taxation is (a) that for *semi-national* services the rate-payer should contribute in accordance with his ability to pay, or (b) that for *local* services he should contribute in accordance with the measure of the benefits derived by him.

It may, however, be conceded that, where an individual definitely benefits from a service and benefit is measurable, the charging of a fee or price should be preferred to the levy of a tax based on ability to pay.

Elementary education is a semi-national service. The cost of educating each pupil can be ascertained and the benefit derived by the individual can thus be measured. But the national aspect of this service is everywhere acknowledged to be even more important than the individual, and it would therefore be both wrong in principle and impracticable from a financial point of view, if we proceeded to recover the whole cost of this service from the persons benefited. The most equitable method of financing this service would be to recover part of its cost from the general tax-payer, part from the general rate-payer, and the balance—however small it may be—from the individual benefited.

Scavenging is a local service. But, while public conservancy—the scavenging of roads, streets and public places—should be a charge on the rate-payer in general, private scavenging is legitimately financed out of a fee graduated according to the benefit derived.

Lighting similarly is a local service. But, while public lighting is a legitimate burden on the rate-payer, the lighting of individual houses should be charged for according to benefit derived.

It is unnecessary to cite more examples. But before concluding the answer to this question, it seems necessary to draw attention to two points.

The first is that *taxation* is not the only method open to a local body for financing expenditure whether on a local or on a semi-national service.

The second is that, where expenditure on a service has to be met out of general funds, it is not always necessary that a new tax should be imposed or that that tax should be based on the ability to pay theory. An increase in the rate of tolls or a revision of the rates of market or license fees might suffice for the purpose.

Per contra, the charging of a price or fee for measurable benefits may sometimes be avoided, where money already being raised on the ability to pay theory renders the levy of such a price or fee unnecessary.

Q. 107.—Local bodies should be given a wider range of resources to choose from, than is given in Schedule II to the Scheduled Taxes Rules.

I would suggest the transfer of the following items from Schedule I to Schedule II of these rules:—

(a) 3. A tax on any form of betting or gambling permitted by law.

(b) 4. A tax on advertisements.

(c) 5. A tax on amusements.

In Schedule II—

(a) Item 8 should read "a terminal tax on specified goods imported into or exported from a local area by sea or rail or on passengers leaving such area by sea or rail"; and

(b) the following should be *added* as items 12 and 13:—

"12. Local additions to all items of provincial revenue.

13. A local addition to income-tax."

There is no need to make the levy of any specified tax imperative. It is sufficient that certain services are made obligatory and that powers are taken to enforce attention to them in case of default, such powers including one to levy such taxes as may be necessary for discharging the functions neglected.

Q. 108.—In this province, municipal councils and local boards have not been levying an octroi on the lines prevalent in Northern India. But what is in the nature of an *octroi* is still levied informally in many villages for meeting common expenditure, and under Section 26 (2) of the Madras Village Panchayat Act, the levy of these has been sanctioned under the law in certain panchayat areas.

The house tax (property tax) is quite familiar in municipal and union areas; and though *prima facie* unpopular in non-union rural areas, is slowly making its appearance in village panchayat areas also.

The expression "satisfactory from an economic point of view" is vague and opens up a wide field for controversy. As measures of ability to pay, serious objections can be levelled against the manner in which the two taxes referred to above, are levied. We have however come to be quite at home with them, and it is hardly worth while contemplating the contingency of our abandoning them. Our efforts should rather be directed towards a gradual removal of the objections that from the standpoint of economic theory could be urged against the present methods of levy.

The taxation of land in this country whether by the Provincial Government or by local authorities is in an anomalous position. It requires a thorough remodelling.

Q. 109.—The prejudice against *octroi* is largely due to the administrative difficulties that attend its levy. Where these imperfections and evasions are inevitable and are likely to be on a large scale, as in towns with a large population or in regional areas, ingress into and egress from which cannot be controlled with anything like efficiency, the tax stands condemned. But where in a compact area such as a village these imperfections and evasions are reduced to the minimum, it is a very lucrative source of local revenue. The village *mahimai* is in several parts of the presidency a familiar levy on various articles of consumption and export. The rates are fixed by the panchayat for each article and the right to collect these is leased out in public auction to the highest bidder.

Panchayats generally prefer the imposition of an *octroi* on the sale and export of produce raised in the village to a duty on the import of articles required for consumption in the village. The economic motive at the back of this preference is obvious. What is available for sale and export is, generally speaking, what remains after adequate provision has been made for consumption in the village. And the duty is paid in the first instance by an outsider. The tax is usually so much per bandy load or other specified quantity, and being generally an insignificant percentage of the value of the article on which it is levied, is willingly paid, and its effect on prices is negligible.

While I consider *octrois* unsuited for municipalities and local boards, they are, in my opinion, well suited for village panchayats, and will be, in their case, in keeping with custom, which in many villages has come down to the present day.

Q. 111.—Both district boards and municipal councils in this province depend a great deal on their toll revenue, and until the revenue from tolls can be replaced otherwise, neither of these can afford to forego tolls. This, of course, is on the assumption, so far as district boards are concerned, that there is to be no readjustment of functions and finances among the different units of local self-government in rural areas. The minimum limits of

distance between one toll-gate and another—viz., 20 miles between one district-board gate and another, and 10 miles between a district-board gate and a municipal gate—seem all right.

Q. 112.—There is nothing wrong in levying the house tax in unions and the property tax in municipalities on the owner. In the long run, and other things being equal, he does successfully shift the tax on to the occupier, if he is a different person. This shifting may not happen at once in the cases of tenancies for terms, where the owner has not reserved his right to increase the rent during the term in consequence of enhancements of tax. Such temporary obstacles to shifting are inevitable in the case of any tax.

The case of land cess is however somewhat different. And the law has, in view of the land tenures prevalent in this province, made due provision for shifting the burden of the tax. The *landholder* is liable in the first instance for paying the Government the whole of the cess, but he is given the right to recover one-half of the cess from the *tenant*, and where there are *intermediate landholders* sharing the *melwaram* right with the *landholder*, the latter is given the right to recover from them a share of the half (of the cess) which falls on the *melwaram* holder (Section 88 of the Madras Local Boards Act).

Q. 113.—There is no limit placed on the rate of the property tax in municipal areas or on the rate of the house tax in union areas.

The question whether a limit should exist as regards the land cess is one of importance. Land in this country is heavily taxed for general purposes. When the State is so largely dependant, as it is in this province, on the taxation of land, it is correct in principle to fix a maximum on a local addition to such taxation. There is a case for raising the maximum rate of land cess, but it is difficult to justify the removal of the maximum altogether.

The removal of the maxima in the case of the land cess, under existing circumstances, will lessen the incentive for exploring other forms of tax or non-tax revenue, and will, by the mere ease with which an increased land cess can be levied and collected, tend to overburden a source already heavily taxed.

Q. 114.—In Madras city, any land or building whose annual value is less than Rs. 18 is absolutely exempt; the Municipal Council has, however, discretion to grant exemption up to Rs. 36. Under the District Municipalities Act, there is no statutory exemption at all; the Municipal Council can, however, exempt up to Rs. 18. Not even this discretion is specifically allowed in union areas in the case of the tax on houses. But, legally speaking, exemptions can be allowed for classes of houses by the taluk board on the ground of poverty, and presumably, in the exercise of its powers under Section 105 of the Madras Local Boards Act, there is nothing preventing the taluk board from exempting houses, with an annual value of such amount as it may fix, from liability to the house tax.

The exemption is rather a curious one. It is subject to the condition that the owner of the property does not own any other property assessed to property tax and is not liable to companies, profession or income-tax—presumably in the same municipality. The exemption is thus intended to have reference to the taxable capacity of the owner to pay the tax. It will be economically justifiable only in cases where the owner lives in his own building and does not own any other in the same municipality. Where, on the other hand, such a house is let and the occupier can afford to pay the tax when shifted on to him, the justification for the exemption is taken away. The property or house tax has reference to the annual value of each individual house, and, if exemptions have got to be granted from payment thereof, they should be based not on the amount of the annual value of the house, but on the amount of the annual income of the person on whom the tax has to be imposed.

The exemptions are, in my opinion, based on wrong principles. The taxes are *paid* by persons though they may be *imposed* on things. Exemptions, if needed, should therefore be based on the income of the *owners*, and not on the annual value of the house.

Q. 115.—I would invite the attention of the Committee to part (ii) of Chapter VI of the Report of the Financial Relations Committee, 1920. The scheme, the outlines of which are stated in paragraph 182 of that report, was

drawn up by me, and, while I am now not wedded to every detail of it, it seems to me that the policy for taxing land in urban areas should follow in the main the lines suggested in that paragraph.

Q. 116.—It is not clear what a manufacturing tax on cotton means.

The experience in this province as regards the suitability for municipal purposes of a profession tax has been quite satisfactory. The tax has been a failure in local board areas owing largely to difficulties of administration. It has made its appearance in many panchayat areas and will, I expect, be a success therein. The administrative difficulties that face a taluk board in assessing and collecting the tax do not exist where the unit for assessment purposes is narrowed down to the limits of a village.

The experience of the tax on companies introduced by the Act of 1920 has, however, not been quite happy, especially in local board and municipal areas outside Madras city. The causes of dissatisfaction are the basis of the tax—viz., paid-up capital and the assessment of every branch of a company on the total paid-up capital of the whole company. The question of remedying these is now under the consideration of the Madras Government. Business turnover was suggested as a basis for the tax in the Amending Bill introduced in 1923, but this also has been justly attacked from many quarters. The basis likely to be decided on finally is income.

In respect of the profession tax, the present scale of taxation requires some overhauling in the interests of progressive graduation.

In regard to both companies and profession taxes, it is necessary that, with a view to avoid administrative conflict, to economise charges of collection and to improve the efficiency thereof, the local rate should preferably be imposed as an addition to the income-tax in the case of incomes liable to income-tax.

Q. 117.—The principles which should govern the payment to local bodies of grants from provincial funds were examined by the Financial Relations Committee of 1920, and their recommendations were accepted by the Local Government. The principles are enunciated in G.O. No. 493, Finance, dated 11th May 1921, and are as follows:—

(1) that grants should ordinarily be made for specific services and not in aid of the general resources of local bodies;

(2) (a) that Government aid to local bodies should be confined to certain services which are semi-national in character;

(b) that the aid may take the shape of the central administration of a service or part of a service (in which case the whole cost of such administration will be borne from provincial funds) or of a payment to the local body of the cost or part of the cost of administering the service;

(c) that the Government will determine from time to time what services are to be regarded as semi-national and which of them should be centrally administered.

(d) that exceptions to the above general rule in (1) above are admissible in the case of especially poor local bodies, pilgrim centres and sanitaria.

Q. 118.—The local stimulus is growing in volume and effectiveness every day. We have got to remember that too much Government supervision and interference in the past retarded the growth and consolidation of public opinion in demanding a standard of efficiency.

Government supervision of services partly or wholly financed out of provincial funds has to be effective but, if local self-government is to have any meaning, should be confined to the scrutiny of broad results and should not tend towards meticulous interference in details.

The case for Government supervision of such services rests not so much on the presence or absence of a sufficient local stimulus to ensure efficiency as on the duty of the State executive towards the general tax-payer. The expenditure on a semi-national service is met partly out of funds derived from the general tax-payer, and the executive responsible to his representatives in the Legislative Council is bound to ensure that the money voted has been put to good use. Local stimulus is necessary for safeguarding the interests of the local rate-payer; even where it is present in full measure, Government supervision of the administration by local bodies of semi-national services will be necessary for safeguarding the interests of the general tax-payer.

Q. 160.—In the case of regional bodies, such as a district or taluk board, it cannot be contended that they should primarily rely upon revenues referrable to the principle of benefits. The statement made in the quotation is of maximum application in the case of local bodies like a village with jurisdiction of a most limited character. It is not inapplicable to municipal or union areas in this province.

Q. 161.—It is not satisfactory because, being so dependent on land revenue, it is inelastic. The local tax will be more satisfactory if, instead of being a surcharge on the provincial tax, it were levied on the subject of the provincial tax as an addition thereto. This however will not be feasible until land taxation for provincial purposes is placed on a scientific footing. The principle of placing a limit on surcharges on, or additions to, the provincial tax is sound, but the limit should be high enough to ensure elasticity in local resources.

I would, however, add that, while such a limit is necessary in the case of local bodies having regional jurisdiction, it is neither necessary nor wise to impose a statutory maximum of the kind in the case of bodies like village panchayats.

Qs. 167 and 171.—Human nature being what it is, it is unwise in any country to entrust the work of assessing local taxes to persons who have to keep their electorates in good humour or persons, whose appointment, promotion and dismissal are entirely at the mercy of such persons. Further, the work of assessment is too important and difficult to be left in the hands of honorary, untrained agencies, naturally inclined to use the opportunity afforded by a revision of assessments to strengthen their hold on the electorate in view of the next election. It ought to be in the hands of a trained agency appointed and punishable by Government and paid well enough to be above temptation. The more local bodies come to rely primarily on additions to the provincial tax, the less will be their need for employing a separate assessing agency; for the assessments made for provincial purposes will have to be followed for local taxation also.

So far as rural areas are concerned, the work of assessment should be done by the Land Revenue staff which is eminently suited for this purpose. Even the existing companies and profession taxes in rural areas should be assessed by that staff.

In the case of municipalities which can afford it, an officer of the status of a Deputy Collector lent by Government should be employed for the purpose. In the case of others, I would suggest the lending of such an officer for doing the work for a group of two, three or four municipalities. There should be a provincial service of these assessing Deputy Collectors. They will pass orders on revision petitions presented to themselves but appeals from their decisions on such petitions may lie to the Council, provided that, if the assessing officer is dissatisfied with the Council's decision, he may refer the matter to the court, whose decision should be final for the period for which the assessment is made.

Mr. Gopalaswami Ayyangar gave oral evidence as follows :—

The President. Q.—You are the Registrar-General of Panchayats, Madras?

A.—Yes.

Q.—Prior to that you were Inspector of local bodies?

A.—I still continue to do this work also.

Dr. Hyder. Q.—There is one preliminary question to ask you. You say "It is impossible for any student of public finance to pronounce on any scheme of taxation—its equity and its accord with economic principles—without reference to the scheme of public expenditure which such taxation is intended to finance." Then you say that "the exclusion of public expenditure from the purview of this Committee is bound to invest its conclusions with an academic and unreal air". Why do you think that?

A.—I thought one of the terms of reference to the Committee was "to consider whether the whole scheme of taxation—central, provincial and local—is equitable and in accordance with economic principles and, if not, in

what respects it is defective". We cannot arrive at any proper distribution of resources unless we also consider the question of distribution of expenditure. After all, adequacy of taxation is relative to the needs of the particular authorities.

Sir Percy Thompson. Q.—Surely you know the respective functions of the Central and Local Governments?

A.—Yes, as they are.

Q.—Do you mean to say that there should be a wider enquiry?

A.—Unless we take it for granted that the present distribution would go on as it is. Then on that basis we can distribute the resources. You are asked now to recommend the theoretically correct distribution of taxes. I say the terms of reference have not made the point clear.

The President. Q.—I think that some of your panchayats are actually levying taxes amounting to 20 per cent on the land revenue. You say, "A pretty stiff extra burden on land would be willingly submitted to, if the function is decentralized to a village authority and the money raised by that authority is spent in the village itself". Is that figure, 20 per cent of the land revenue, correct?

A.—Yes, in cases. If you look at the schedule of taxes, whose levy has been sanctioned in the panchayat areas, you will find in the Tanjore district a number of levies on land. If you value all these levies in money, you would probably get to 2 or 2½ rupees an acre.

Q.—All these new taxes have been imposed since you took over the panchayats?

A.—I think many of them existed already in an informal way.

Dr. Hyder. Q.—I was going to ask you about the estimate of crops. I take it that these estimates of crops are made by the village officers, namely, the *karnams;* I think he knows something of the land as it is his main business. If he performs his function, I do not think he is so ignorant as not to be able to get the correct outturn .

A.—I can only speak from the experience I had as a Divisional Officer having had to check these outturns during the inspection of fields—of course it is about six or seven years old—my distinct recollection is that most of these estimates were unreliable. I do not convict him of want of intelligence, but I do say that he is always very careless.

The President. Q.—You had some graduate *karnams,* I think?

A.—I think we had one or two stray men.

Dr. Paranjpye. Q.—You mean to say that you cannot educate them to work honestly?

A.—Well, you might put it in that way if you like. I should add it is rather difficult to estimate the correct outturn. For instance, if you have leases in the village, where the lessor and the lessee differ, the usual practice for them is to choose five or six prominent ryots in the village and all of them participate in the work of estimating the outturn. It is not easy to say what the outturn is.

The President. Q.—In the course of your reply to Q. 7, you say that it is the tax resources of the Central Government and not those of the Provincial Governments that ought to be scheduled. Can you give me any instance of a country which has adopted that plan?

A.—Not exactly to that extent. In the case of the United States, I think the resources of the Central Government were reserved. This is rather putting it in an extreme sense, viz., that the residuary powers should be given over to the Provincial Governments, but I should be quite satisfied if the field was left free for both the Central and Provincial Governments, the resources of the Central Government alone being reserved.

Q.—Actually, hasn't the Central Government in this country given up to the Provincial Governments a good deal more than States usually reserve to themselves when they create federal Governments?

A.—That is so, if we take the resources at the time of the inception of the Reforms.

Q.—The Provincial Governments have more power for taxation than the separate States in several federations.

A.—I don't know, because the resources that have been left to the Provincial Governments here are very inelastic: you cannot develop them.

Sir Percy Thompson. Q.—Suppose you have both the Central Government and the Provincial Governments operating in the same fields of taxation: e.g., in Australia, the levy of both a federal and a State income-tax was found to work out very badly in practice. They appointed a Commission in 1921 and although they did not agree as to the remedy to be proposed, the existing system was condemned unanimously.

A.—The question is really one of adequacy. Supposing it were not possible to make income-tax entirely central or provincial with reference to the needs of the two, it may be a necessary evil, but it has got to be faced. The ideal system would be segregation of resources; I don't know if it is feasible.

Dr. Paranjpye. Q.—What do you think would be the proper business of the Government of India under a federal system? Do you think that the Central authority should have the residuary powers or that the Provincial Governments should have them, both of administration and taxation?

A.—I have stated my view that the residuary powers, both of administration and taxation, should be with Provincial Governments.

Q.—Don't you think that such a system will tend to destroy the growing feeling of solidarity in different parts of the country?

A.—I don't think so.

Q.—Each province will tend to diverge more and more from the model.

A.—With provinces of the dimensions we have in this country, I do not think we need contemplate that as a contingency.

Dr. Hyder. Q.—When the finances of the Central Government are strictly limited, and money is required for, say, a Frontier expedition, would people down in the south realize the necessity of undertaking such expenditure?

A.—I suppose that if the Central Government imposes a tax, they are not going to differentiate between one province and another: It will only be a case of all-India taxation.

Q.—The urgency of the expenditure might not be realized by provinces which do not lie near the scene of operations.

A.—But it is the Central Government that will have to find the expenses for such an expedition.

Sir Percy Thompson. Q.—In paragraph 10 of your statement you suggest that income-tax should be mainly provincialised. You say, "I do not consider that the administrative objections to making income-tax provincial or the other objections based on the fear of multiple taxation as between different provinces on the same income are by any means insuperable." Could you tell us how you would get over the difficulty of multiple taxation?

A.—The first question that we shall have to decide in regard to income-tax will be as to who will be the authority to assess it. I have said that super-tax should remain with the Central Government, ordinary income-tax alone being provincialised. There would be need for a common law, which will be applicable to the whole of India, to determine the general principles of ascertaining and assessing incomes.

Q.—Would you kindly say how you are going to avoid double taxation of income? Take, for instance, income derived from Bombay, but enjoyed in the Central Provinces.

A.—It will have to be a case of division of the income between the two provinces and we shall have to legislate for that. Some portion of the income will have to go to the province where the man enjoys the income and some portion will have to go to the province where the income is derived.

Q.—Surely the adjustment is going to be terribly difficult in each individual case.

A.—There will have to be some sort of practical solution.

Q.—Why shouldn't you have the tax collected by the Central Government and divide it between the various provinces?

A.—That is an alternative which can be considered.

Q.—Would you say that it is right that both the Central Government and the Provincial Governments should have an interest in an expanding tax like the income-tax and that it should be collected by the Central Government and a proportion of the proceeds divided between the provinces?

A.—The difficulty I felt in regard to making income-tax altogether central is the fact that I am later on suggesting that agricultural incomes should also be taxed. We shall require for that purpose all the land revenue machinery that we have at present, which is entirely provincial, and it will be a question for consideration whether on the balance of advantages it is not more convenient that the Provincial Government should be the assessing authority.

Q.—I can't see how you are going to get over the difficulty.

A.—The only idea I can suggest is that we should have legislation for meeting such cases. A proportion of the income realized should go to the place of residence, and a proportion to the place from which the income is derived.

Q.—Suppose you have a company in Bombay with share warrants to bearer: the dividends declared are taxed, but the man can take his coupon and get it cashed through a bank. How do you know where it is cashed?

A.—I suppose that some sort of enquiries will have to be made by the income-tax assessing officer.

Q.—What enquiries?

A.—We ought to give it to the place where the share warrant is presented.

Q.—That is no indication.

A.—We can only attempt a practical solution of these things. If it is impossible to arrive at the exact location of the income, we shall have to take it at the place where it is actually realized.

Q.—I put it to you that something of that sort is done to meet the question of double taxation between Great Britain and the colonies including India. I know from experience that this is one of the most complicated part of the income-tax arrangements in the United Kingdom. It is not so complicated in India, because it is only in very rare cases that India has to pay money. The bulk of the loss is borne by the British exchequer. Think of it with nine different provinces and applications to two authorities to adjust. A resident in the Central Provinces would have to deal with both the Central Prvoinces and Bombay Governments.

A.—I grant that it will be a difficult matter: but I do not think that at present the number of incomes that will come under that category will form the bulk of income-tax assessments in this country. The bulk of it will be purely provincial.

The President. Q.—Let us carry your proposal a little further: you propose to give the Government of India only super-tax. How would it be to give the Government of India the taxes on inter-provincial incomes and to leave to the provinces the tax on incomes derived entirely within their limits?

A.—That requires working out: it is certainly an idea worth investigation.

Dr. Paranjpye. Q.—About your scheme of provincializing income-tax, do you contemplate different provinces levying income-tax at different rates?

A.—Certainly.

Q.—You will only have common legislation about the method of assessment, but not about the actual rates of assessment?

A.—Yes.

Q.—It would mean a big interference with business, because a business would have its nominal office in a province where the rate is lowest.

A.—Yes: I dare say that there may be exceptional cases of that sort, but I do not think we can eliminate exceptional cases from any system.

Q.—Several companies which had formerly their head offices in England are now transferring them to India in order to get relief from income-tax.

A.—Yes.

Q.—It will be more so when we have nine different possibilities.

A.—That assumes that there is going to be a very large number of cases of that sort.

Sir Percy Thompson. Q.—If the policy of industrialization in India is started, you will get the position more and more complicated as time goes on.

A.—That might be so: we have got to take account of the fact that once you include agricultural incomes under income-tax, that and the purely provincial industrial incomes will bulk much more largely in income-tax returns than the cases you are thinking of.

The President. Q.—Do you think the exemption minimum could be reduced very considerably?

A.—Yes.

Q.—Wouldn't that cost more?

A.—The reduction of the minimum had reference to the other suggestion that we should include agricultural incomes. When you reduce it in the case of agricultural incomes, I think it is only just that you should reduce it in the case of other incomes.

Sir Percy Thompson. Q.—In one province it was estimated that if you reduce the limit of exemption from Rs. 2,000 to Rs. 1,000, the cost of administration would be just about double and the yield about 15 or 16 per cent more.

A.—That is arguing on the present machinery for income-tax assessments.

Q.—Don't you admit that the present machinery for income-tax assessments is better than the old machinery?

A.—I don't know: the law is certainly very much better, but I don't know if the present law with the old machinery would not have done equally well.

Q.—I think you are the only witness who has put that view before us; all witnesses have stated that the machinery is now more efficient than it was before.

A.—That is putting it purely on an *a priori* consideration, because the machinery is employed only on income-tax work, whereas the old machinery was part-time. I rather contemplate the contingency that the regular land revenue staff will do the assessment in the future also.

Q.—Would you have those dual functions which caused inefficiency in the past?

A.—In the old days the land revenue staff were doing very much more than they do now.

Q.—Also, was it not the case that the inefficiency of the past was more marked in the case of large and complicated commercial undertakings? In dealing with men with incomes between Rs. 500 and Rs. 1,000 and between Rs. 1,000 and Rs. 2,000, no great amount of specialized knowledge is required.

A.—That is so.

Dr. Hyder. Q.—The old machinery had this advantage, that the officers were very much in touch with the people.

A.—Yes.

Dr. Paranjpye. Q.—Do you think that their inefficiency was due to the fact that they had magisterial powers?

A.—Their inefficiency was partly due to the fact that they had to do magisterial work also.

The President. Q.—Actually, how long is it since tahsildars in this Presidency have done any actual magisterial work?

A.—It is at least a generation since they had anything to do with magisterial work.

The Maharajadhiraja Bahadur of Burdwan. Q.—Paragraphs 13 and 14: you say that land revenue proper is a tax, and I take it that you look upon land revenue as a tax instead of a rent?

A.—Yes.

Q.—You also say that it is a very bad tax and that "the rate is so heavy and the methods of levy so indefensible that people have taken refuge in designating it a rent". Would you explain what you mean by this?

A.—Land revenue is at present really a tax on agricultural income, and the theory is that half the net is the land revenue assessment. I am only speaking of the theory, it may be a little less actually. But if you judge it by the principles which should apply to the taxation of incomes from other sources, it should be conceded at once that it is a very heavy tax. To take half the net income of an individual or anything near half the net income is certainly indefensible. With regard to the methods of levy, the usual thing done in ryotwari areas is to carry out resettlements at intervals of thirty years, and these resettlements are made after very careful enquiries: but if we analyse the materials on which resettlements are based, we shall find that Settlement Officers and Governments are unable to fix their recommendations or their orders upon any principle or economic theory: sometimes, it is a case really of basing it upon an increase in prices for a number of average years. They try to support this by the variations in the price of land and the rents that are obtained by lessors from lessees: then there is a general enquiry into economic conditions and various kinds of statistics: there is really no definite principle on which the actual income of the individual is ascertained. The whole tract is examined and a good deal of thought and labour spent upon it, but when you levy an income-tax and that tax has to relate to taxable capacity, there ought to be some methods by which you can ascertain the income.

Q.—In view of that, you suggest in paragraph 14 that land revenue as at present assessed should be replaced by (a) a tax on the capital value of the land, and (b) a tax on agricultural incomes. In the next sentence you say that "neither of these by itself could replace land revenue or be justified on considerations of equity or principle". Your underlying idea is that the present system of land revenue should be abolished altogether?

A.—Yes, and that it should be replaced by these two.

Q.—You would take a tax on the capital value of land, and after doing it you would still tax agricultural incomes?

A.—Yes.

Sir Percy Thompson. Q.—In the Punjab, there is a vast quantity of waste land which is not used for any purpose. It had owners: when the Punjab Government applied an irrigation scheme to it, 75 per cent of this land was given up to the State. The land was sold by auction subject to land revenue: was that a tax or a rent?

A.—I suppose that the purchasers got full rights in the land. I should interpret the words 'subject to land revenue' to mean 'subject to any tax which the Government may impose'.

Q.—Under order 21 of the ground-rent rules, you will see that Government lands in towns are sold at something approaching a rack-rent.

A.—Yes.

Q.—They are sold by auction: is the ground rent which is put on, a tax or a rent?

A.—At present it is treated as a rent.

Q.—How does that differ from the case of the Punjab?

A.—It all depends upon the rights of the man who buys the land.

Q.—Both have the same rights.

A.—The only right that is reserved by the State is to impose a burden on the land.

Q.—What they have done in both cases is to reserve a variable rent, a rent which is liable to revision every thirty years. It is purely a voluntary arrangement between the purchaser and the State: he buys it for so much and agrees to pay so much per annum for it. Do you call that a tax?

A.—If it is open to the man who purchases the land to have any voice in the determination of the rent it would approximate to rent. But if it is

a compulsory levy by the State, whatever may be the verbal transaction that may have taken place, in essence it is a burden which the State imposes by virtue of its sovereign power.

Q.—Suppose I have some land and I say that the rent of this land is Rs. 100: you come along and say that you would take it for Rs. 100: is that a rent or a tax? You have no voice in determining what the rent is?

A.—The whole point is whether the State will have the right to revise these things without reference to the lessee.

Q.—If it is a fixed sum in perpetuity without being liable to revision, then is it a rent?

A.—It is merely a case of contract, and it is a question whether the State is bound not to alter the arrangement at all.

Dr. Paranjpye. Q.—Suppose the State has made a contract like this: that the man pays so much price and so much land revenue for the next thirty years and it is stipulated that the land revenue may be increased by, say, not more than 30 per cent every thirty years; would that be a rent or a tax?

A.—I am only explaining the theory of the ground rent to which Sir Percy Thompson referred.

Q.—Take the case of the Punjab land, for instance.

A.—It is an analogous case. The State has got certain land to dispose of. When it lets a man into possession of it, it gives him all the rights to the property. It has got to determine the tax that it will levy on that land. On the theory so far in vogue, his burden is considered to be equivalent to, let us say, 4 per cent of the assumed capital value. The State is not able to ascertain the capital value at the moment accurately. So it proposes to divide this tax between a premium through sale and annual payments thereafter. It fixes a certain ground rent and subject to that ground rent it sells the land. It only amounts to this: instead of taking the exact ground rent or tax, it proposes to take it partly in the shape of an annual tax and partly in the shape of an initial payment.

Sir Percy Thompson. Q.—Which initial payment is a tax?

A.—It ought to be reckoned as a tax. If it was possible for you to fix accurately the amount of tax that you should levy from the land, you would have done so. Because you are not able to do so, you take it in the shape of a premium.

Q.—Is it one of the attributes of a tax that you do not get any direct benefit?

A.—Yes.

Q.—Do you get any direct benefit from this payment of the sum per annum and this capital payment?

A. —Yes.

Q.—You get a direct benefit for your price when I sell the land?

A.—You are thinking of a case of sale?

Q.—It does not matter whether it is a sale or lease. A lease of 99 years is recognised as equivalent to a sale.

A.—The man occupies a certain piece of land, and the question is what tax the State should impose.

Q.—I take the case of a piece of land—State land—and suppose the State is going to dispose of it by permanent lease. If it fixes the ground rent permanently then you say it is rent. On the other hand, suppose it says "this is not subject to a fixed ground rent; it is subject to a ground rent which varies with reference to the annual value"; then you say it is a tax?

A. —Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—At page 12 of the Proceedings it is stated "An annual tax of 12 annas per acre of irrigated land in the village on every *mirasidar* of such land". What is this tax for?

A.—For the silt clearing. Silt accumulates every year in the channels and it has got to be removed.

Q.—Formerly, was this cleared by the *mirasidar* himself?

A.—Formerly also it was done in this way; only the arrangement was informal and it is now regularized by the Panchayat Act.

Q.—In some of the unions you seem to have a tax on families. Is it a direct poll tax?

A.—No; it is really something akin to the tax on circumstances and property which is in vogue in Northern India. It is also more like the profession tax.

Sir Percy Thompson. Q.—In paragraph 15 you say "Irrigation facilities constitute an improvement, and a tax on capital value should, as far as possible, exclude improvements". Then at the end of paragraph 16 you say "The additional value imparted to land by the provision of irrigation facilities should be laid under contribution through the tax on capital value".

A.—That has been altered. The last sentence of paragraph 16 has been omitted.

Dr. Hyder. Q.—Why should improvements be excluded?

A.—Because the tax on capital value is really a tax on the unimproved value of the land.

Q.—That is, you think that if you tax improvements, they won't be made?

A.—Yes. There is also a separate charge for water. But the improvements in respect of irrigation are all made by the State in a majority of the provinces.

Sir Percy Thompson. Q.—Do you know if it is possible to get at the unimproved value of all the land in India?

A.—Approximately; I do not think it would be in any way perfectly accurate.

The President. Q.—Are you proposing to attempt to arrive at it retrospectively? How far back will you go to deduct the value of an improvement?

A.—So long as it constitutes an improvement. So long as the improvement is there and is functioning, the value of that improvement should be deducted.

Q.—It is rather difficult to discover whether improvements have been made or not, especially where land has been levelled generations ago.

A.—I do not think we shall be able to make any allowance for the lowering of levels in an old country like India.

Sir Percy Thompson. Q.—Why not, on your principle?

A.—If it is possible for you to do it, you ought to do it. The theory requires that it should be done.

Q.—The fact merely shows that the scheme is impracticable.

The President. Q.—Is it necessary to exclude improvements at all?

A.—Yes; because the tax on capital value suggested here is only one tax in a diversified system. It is not intended to take through that means all that you can take out of land.

Dr. Paranjpye. Q.—Could you exempt improvements for a limited period of years?

A.—A tax on capital value is really supposed to fall on pure economic rent, and so long as there is any portion of improvement left in the calculation of site value, you will have to leave that out of account.

Dr. Hyder. Q.—Then you must go back to pre-Aryan times.

The President. Q.—Can you give instances in which such a tax has been levied successfully?

A.—I can only refer you to some literature that I have read about New Zealand.

Q.—The improvements there are mainly buildings. Is it not?

A.—I think even laying down permanent pastures is taken as improvement in New Zealand.

Sir Percy Thompson. Q.—Supposing you succeed in ascertaining the capital value of the land, are you going to put on an uniform tax? Is it not unfair between an owner who has let his land on a competitive rent and an owner who, owing to the Tenancy Law of the province, has an occupancy tenant, who himself has beneficial occupation and is paying something far less than the rack-rent?

A.—If the tax on capital value was the only tax on land and we were taxing the landholders according to their taxable capacity, that argument would be sound. But what is suggested here is that the tax on capital value should be very light. It is only one of the burdens on land.

The President. Q.—Is your tax on capital value to be applied to permanently-settled areas?

A.—I think it is a very complicated question. I was not prepared to say anything definitely on the point. I thought it would bring in the question of the old covenants.

Q.—You say it has reference to the ryotwari tract, so that there is no case in which the tenant has beneficial interest; in the ryotwari tract, there are no tenants who have occupancy rights?

A.—No.

Q.—So that the question of beneficial interest won't arise?

A.—No.

Dr. Paranjpye. Q.—In the case mentioned by Sir Percy Thompson; do you not do this—find out the capitalized value of the first owner's interest; then the capitalized value of the second intermediary owner's interest; then the capitalized value of the sub-tenant's interest and so on; and in that way take all the capitalized value? And in the ryotwari tract, take it as one lump sum. In this way, can you not get the whole capitalized value?

A.—I do not know if all this elaboration is necessary so long as you look upon it as a light charge on land.

Q.—It is only in order to compare incidence in the different provinces. If you are going to distribute the resources of the country between the different provinces on an equitable basis, what we have to say is that the capitalized value of Bengal is so and so; that of Madras is so much and so on. Now suppose it is expected that each of the provinces should charge at 4 annas per cent on the capitalized value of the land. It need not tax it so, if it can find its income in any other way. At the same time, it is expected in any distribution of the resources between the different provinces that each province must get so much from the land. For that purpose, is it not necessary?

A.—It would be desirable; but I do not know if we can go into the question of the previous engagements.

Q.—There are the engagements already; and all that the province has to do is to find the other things.

A.—I agree in theory.

The President. Q.—As against the example of New Zealand, you could find a good many countries which have a property tax, but without the element of unimproved land, in addition to the income-tax.

A.—Yes; the United States of America, for instance.

Q.—You think it is inequitable?

A.—I would not say it is inequitable. But in that case we shall have to reconsider the question whether we should tack on to it this tax on agricultural incomes.

Dr. Paranjpye. Q.—The property tax in the United States had a painful history.

A.—Yes; it has been attacked on economic principles.

Q.—From the administrative point of view, it is impossible to collect it.

A. —Yes.

Sir Percy Thompson. Q.—In answer to Q. 106, you say "The usual classification of services administered by local authorities into national or onerous will not stand examination". Then you classify them as 'semi-

national' and 'local'. Is it not rather a distinction of words? Have you borrowed that from the note in the Report of the Royal Commission in 1911?

A.—That has been made part of the Madras literature in any case.

Q.—That Royal Commission adopted the classification from that given by the Royal Commission of 1901?

A.—Yes.

The President. Q.—Could you give us one or two instances of local octrois?

A.—In page 12 of the Proceedings, you find under Koviladi Village Panchayat—Item II—Mahimai: Sale of paddy for export—

	RS.	A.	P.
(*a*) Per cart-load	0	4	0
(*b*) Per bag	0	0	4

Q.—Those are sanctioned under section 26 (2) of the Act?

A.—Yes.

Q.—They have all been approved by the Local Government?

A.—Yes; the Local Government really means myself. The power has been delegated to me.

Dr. Paranjpye. Q.—So you could sanction any surcharge on income-tax also?

A.—Yes.

Dr. Hyder. Q.—Does the Government of India know about this?

A.—They have a copy of the Act; they have assented to it.

The President. Q.—Do you accept taxes which really hit the people from outside the villages? For instance, outside carts also enter the village.

A.—Yes; they bring in some produce for sale.

Q.—Motor vehicles running in the panchayat jurisdiction pay a tax of Rs. 6 a month in one village?

A.—Yes.

Q.—Then there is a tax on banks, tax on arrack and tea shops?

A.—Yes; it is a very common thing in the panchayats.

Q.—The Government, apart from the Registrar, approves of these things?

A.—A return of these taxes is sent quarterly to the Government.

Dr. Paranjpye. Q.—As regards the taxes, don't you think that if panchayats are given a free hand, they might tax one single man out of existence?

A.—They have not been given a free hand. The procedure is rather elaborate. The panchayat has first to pass a resolution for levying a tax; that proposal has to be published in the village; objections have to be invited; the panchayat has to meet again and confirm the resolution. And then it comes up to me for final sanction.

Q.—Are you satisfied that these taxes are collected satisfactorily?

A.—Yes.

Q.—There is no evasion?

A.—No; the machinery for collection is the village headman and there are certain rules under which he has to collect these taxes.

Q.—The village headman cannot collect from every cart-load that comes from the field. He must depend upon the honesty of the man.

A.—Yes; in the villages it is paid with very much greater ease than elsewhere, because evasion is at once detected in the villages.

The President. Q.—You don't object to the octroi in the villages; but you object to the octroi in the towns?

A.—Yes.

Q.—Would you like to have power to levy a terminal tax?

A.—Yes.

Q.—You would retain no sort of control?

A.—Surely we impose certain duties on the local bodies; if they default, we take power to enforce obedience; and one of the items should be the levy of taxation.

Q.—Would you retain control in order to prevent a particular local body from taxing a single trade or levying what, in effect, is a transit tax? A terminal tax can quite well be in effect a transit tax. Again we find in certain places that the whole taxation of the town is got from the cotton trade. We mention here a manufacturing tax on cotton. That is in addition to a terminal tax on all the cotton that comes in.

A.—Is it something like what they have in Bombay?

Q.—Not only in Bombay but in a number of towns; and the whole expenditure of the town is met out of the tax on the cotton passing through. The ginning factories also pay a manufacturing tax. Do you think it is legitimate that a single trade should pay the whole taxation of a town? Would you not take any power to compel the town to levy a particular tax and to control the levy of others?

A.—I do not think we have any such cases here. The only instance I can think of is Pollachi which has got a big market which fetches about Rs. 20,000 per annum and the tolls fetch about Rs. 75,000; and the tolls are really paid by outside carts coming in.

Q.—We were told that Dharapuram gets an enormous income from tolls.

A.—Yes; even in those cases there is also a property tax being levied by the municipalities. We have not yet had a case where they try to meet all their expenditure in this way.

Q.—You don't think it would be desirable to provide that they should all levy the house tax or property tax?

A.—I do not think it is necessary at present.

Q.—Regarding the question of the rating of land within municipal limits, what is your recommendation? You think that inequalities cannot be justified?

A.—Yes. The scheme I refer to is paragraph 182 of the Report of the Financial Relations Committee appointed in 1920.

The President.—I will read the scheme for the information of the Committee:—

"(1) All land revenue—*taram* assessment and ground rent—in municipalities should be abolished.

"(2) The municipal property tax should be remodelled by separating the taxation of sites from the taxation of the buildings or other improvements on it.

"(3) There is essential difference between the value of sites and the value of buildings and improvements. The value of sites is largely one to which the community has contributed; the value of buildings is mainly that of the capital and labour spent on them.

"(4) Unearned increment in values has reference really to sites, and not to the improvements or buildings on it.

"(5) Our policy in urban areas should endeavour to keep down speculative prices, make more land available and encourage building. These considerations suggest a discrimination in favour of buildings and against land in the distribution of the property tax between its two elements.

"(6) The attempt to tax unearned increment, after its accrual on the evidence of a registered sale-deed, leaves untouched a host of properties, which daily appreciate in value without such evidence forthcoming.

"(7) Unearned increment should get taxed in an automatic manner, and the best way to do this is to levy a low percentage tax on the capital value of sites, apart from buildings or other improvements on it. The tax should in this country be placed on the owner. The valuations may be made, annually, triennially or quinquennially.

"(8) It will be necessary to correlate such a tax to the present property tax based on annual value. The tax on building rentals may be regulated on income-tax lines with an exemption minimum at the bottom and progressive graduation of rates at the top. Or, in the alternative, a local

authority may first determine what amount it should raise in the shape of property tax and then recover definite proportions of it from the tax on site values and the tax on rentals.

"(9) The main difficulty is that sites should be valued at frequent intervals. But something of this kind is being done even now in connection with the preparation of municipal assessment lists.

"(10) In some cases it may be necessary, in taxing site values, to discriminate in favour of built on land as against vacant land or land put to agricultural uses. This will encourage building operations, increase the supply of land for building and help to solve the problem of housing in congested towns."

Sir Percy Thompson. Q.—You say that "the experience of the tax on companies introduced by the Act of 1920 has, however, not been quite happy, especially in local board and municipal areas outside Madras city". Is there not an alternative which in effect is to charge income-tax at the rate of about 2 per cent on the profits made actually there?

A.—It is only in cases where there is no head office or a branch office in a place that that alternative will apply.

Q.—I mean the branch office can adopt that alternative if it is only a branch office?

A.—No. You will please see in page 141 of the District Municipalities Act: "Provided that any company, the head office or a branch, or principal office of which is not in the municipality, and which shows that its gross income received in or from the municipality has not in the year immediately preceding the year of taxation exceeded . . . . . ."

Q.—Then if there is a branch in the municipality, it is chargeable on the paid-up capital of the whole concern?

A.—Yes.

Q.—You say the basis is the final income, is it not in practice going to be a surcharge on the income-tax?

A.—Yes.

Q.—Will the Government of India allow that?

A.—They have agreed to the companies tax.

Q.—Companies tax is based on the capital of the company; it is different from the income-tax.

A.—It is a question of alteration in the wording. In the case of profession tax they have agreed to the basis of the income. The next rule will show that.

Q.—They have never liked to introduce a regular surcharge on income-tax in any case?

A.—Yes, there is a provision in the District Municipalities Act. There is a provision for a surcharge up to 50 per cent. But the Government of India have refused permission to levy it. In the Local Boards Act they would not allow it to go into the Act at all.

The President. Q.—Is there any case you know of where the betterment tax has been levied?

A.—It has not been levied anywhere. I think a betterment tax has been settled in the town-planning scheme of Chittoor.

Q.—At the end of your written memorandum you say that you would favour the system of appointing Deputy Collectors for the assessment of taxes in municipalities. If you would allow appeals from the Deputy Collectors to the Council, would it not be putting that officer in a very invidious position?

A.—So long as he is not dependent upon the vote of the local body, it is all right.

Q.—Would you apply the same principle in the case of Madras Corporation, where he is to some extent dependent?

A.—Yes.

Q.—Would you allow an appeal?

A.—I think there is an appeal to the Standing Committee against which there is an appeal to the Small Cause Court.

Q.—The result has been that the provision has been rendered nugatory?

A.—My experience of the Madras Corporation has not been much.

Q.—Would it not be much simpler to have the appeals direct to the Courts straightaway or to the Collector?

A.—That would be altogether divorcing the local authority from assessing.

Q.—In most of the democratic countries the assessment is done by permanent officials who are not responsible to the Committee.

A.—I think as an ideal, it would be the correct thing to do.

Q.—The function of the elected body with regard to policy should be quite apart from the administration side?

A.—I think so.

21st May 1925.

OOTACAMUND.

Present:

Sir CHARLES TODHUNTER, K.C.I.E., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Sir T. DESIKACHARI, Kt., President, District Board, Trichinopoly, was examined.

Written memorandum of Sir T. Desikachari.

Local taxation.—During the past fifteen years I have been connected with local administration as chairman of a municipality or president of a District Board. I don't presume to deal with local finance or taxation as a philosopher or student. Such views as are set down in this statement have been suggested by the problems presenting themselves for solution in the practical administration of local affairs. It is not easy to draw a sharp division between the spheres of the central and local authorities. There is hardly a sphere of local activity in which it may be definitely predicated that some forms of expenditure are matters of general importance to be delegated to the central authority and others are but of local importance. Local administration in this province covers a variety of national and semi-national services which by tradition, if not by the exigencies of provincial finance, have been committed to the care of local bodies. Subsidies from provincial revenue have in the past been made on no definite, intelligible or uniform standard or principle to enable local bodies as best as they may to carry on their work. I shall set down the provisions of the existing law regarding local taxation in order to indicate where we have been drifting from the fifties of the last century up to the present date.

2. Under the Madras City Municipal Act, IV of 1919, the Corporation may levy—

(a) a property tax,
(b) a tax on companies,
(c) a profession tax,
(d) a tax on carriages and animals,
(e) a tax on carts,
(f) a tax on timber brought into the city,
(g) tolls on vehicles and animals entering the city, and
(h) *a duty on certain transfers of property in the shape of an additional stamp duty.*

The property tax, which shall be levied at a consolidated rate on all buildings and lands within the city save those exempted by or under the Act or any other law, shall comprise (a) a water and drainage tax, (b) a lighting tax and (c) a tax for general purposes.

Subject to the provisions of the section 102 the property tax shall be levied at rates fixed *at percentages of the annual value of lands and buildings* such rate being *determined by the Council.*

For the purpose of assessing the property tax, the annual value of any building or land shall be determined *by the Commissioner,*

So far as the duty on transfers of property referred to in clause (h) above is concerned, section 135 of the Act prescribes a method of assessment of duty on such transfers. A duty on transfers of property shall be levied in the form of a surcharge on the duty imposed by the Indian Stamp Act, 1899, on instruments of sale, gift and mortgage with possession of immovable property situated within the limits of the city at a rate not exceeding 2 per cent on the amount of the consideration, the value of the property, or the amount secured by the mortgage, as set forth in the instrument.

3. Under the District Municipalities Act 5 of 1920—

(1) every municipal council may levy (a) a property tax, (b) a tax on companies, (c) a profession tax, (d) a tax on carriages and animals, (e) a tax on carts, (f) tolls on vehicles and animals entering the municipality.

(2) A hill station municipality may also levy a tax on servants.

Under section 79, with the previous sanction of the Governor in Council and the Governor-General in Council, a surcharge *on income-tax may be levied in lieu of the tax on companies and of the profession tax in respect of certain classes of persons* liable therefor.

A tax on persons entering or leaving the municipality by railway may be levied by the council of any municipality which is resorted to by pilgrims.

The property tax is levied on *buildings and lands* within municipal limits and comprises water and drainage tax for expenses connected with the construction, maintenance, repairs, extension or improvement of water or drainage works.

The lighting tax provides for expenses connected with the lighting of the municipality by gas or electricity; the railway tax should be used for or to further the extension and maintenance of railways.

The assessment of property is based upon the gross annual rent at which the lands and buildings may reasonably be expected to let from month to month or from year to year less a deduction of 10 per cent of such annual rent, and the said deduction shall be in lieu of all allowance for repairs or on any other account whatever. If the gross annual rent of buildings of a class not ordinarily let cannot be properly estimated, the *annual value of the premises is deemed* to be 6 per cent on the sum obtained in a certain manner on the estimated cost of the building.

Section 84 relates to general exemptions and alternative basis of taxation. A property tax is a first charge on the property and payable by the *owner* of the assessed premises.

Under Madras Act 14 of 1920 Local Boards Act, a local board can levy the following taxes:

(i) a land cess being a tax on the annual rental value of lands,

(ii) a tax on companies,

(iii) a profession tax,

(iv) a tax on houses, and

(v) tolls on carriages, carts, palanquins and animals passing along public roads or *persons* passing over public bridges. They can also levy a pilgrim tax as in the case of municipalities. Under section 166 of the Local Boards Act, the District Board can levy a fee in respect of motor vehicles plying for hire.

4. Under the Madras Elementary Education Act, a further cess is leviable for the purpose of elementary education to be added to the district Education Fund.

5. In addition to these taxes, the ultimate unit in the administration of rural affairs, viz., the Village Panchayat, is authorised to raise a number of taxes by section 15 of the Madras Act 15 of 1920, and there is a schedule annexed to it relating to callings, trades and professions which can be taxed which includes document writers, stamp vendors, law agents, priests, *purohits, archagas,* and *hakims,* indeed every occupation known to an Indian village.

6. So far, therefore, as taxation in local and municipal areas and villages is concerned, there is no possibility of adding to the taxes which could be levied under statutory powers, and I do not think that any further additions need be made to the schedules contained in these Acts, which, in my opinion, already give sufficient scope to local bodies for taxing every available source possible.

7. The question whether the house and land tax and land cess should be discontinued must be answered in the negative as I cannot think of any other suitable tax—particularly in rural areas—which could be imposed to properly replace them. The land cess itself grew out of the old road fund formed by executive order by means of something like a surcharge on the land revenue for the maintenance of communications other than trunk roads and important district roads. It has increased from a 6 pies cess in 1866 to 1½ annas in the rupee. Local bodies have been gradually assigned the discharge of duties unconnected with the original of the road cess and were made to undertake services legitimately to be paid for from public revenue and not local rates. It was apparently found impossible all these years to replace the land cess by any other suitable tax. The Government, therefore, transferred to District Boards such income as that derived from canals and ferries under the Public Canals and Ferries Act and made grants sometimes for trunk roads, at other times for village communications, for the improvement of rural water-supply, and for the construction of elementary school buildings. But the anomalous position occupied by local boards continues still, they having to do onerous and national services out of rates collected with the object, benefiting local areas and supplying local needs. Though all the Local and Municipal Acts were recast in this Presidency in 1919 and 1920, it was throughout assumed that the existing land tax, land cess and house tax should continue, though it was felt that the ultimate limit of taxation was reached so far as lands were concerned.

8. Public opinion was against the increase of any burden on land; the provision for the imposition of the railway cess was abolished and the land cess was fixed at 1½ annas in the rupee of annual value. To this has to be added the education cess under the Elementary Education Act. Land has been rated to the utmost limit and it is not possible to make more exactions from landowners for augmenting local revenue.

9. The assessment and collection of the profession and companies taxes are attended with considerable difficulty. The trouble and expense entailed in getting in the profession tax are not commensurate with the addition which they make to local revenue. More than one local board in my district moved for the abolition of this tax and the cancellation of the notification authorising its levy.

The companies tax is of little avail in augmenting local rates. Co-operative societies are practically the concerns in regional areas as those of taluk boards which are taxed as companies. But in the interest of the co-operative movement these societies are sought to be exempted from the tax. In these areas a tax on amusements or entertainments is not likely to be viewed with favour, nor is it just to impose such a tax in a country in which people take their pleasures sadly. Such amusements as are furnished by an acrobat, an itinerant dramatic troupe or a conjurer in villages, may perhaps be brought under the schedule of occupations or callings annexed to the Village Panchayats Act.

10. The only source of local revenue, which is fairly distributed and can be depended upon as a growing one by local boards, is that derived from tolls which are collected from rich and poor alike. There would be no hardship in continuing to levy them in this province. Conflict, however, arises between two District Boards or between a Municipality and a District Board in the matter of the location of toll gates near the borders of two districts or on roads entering municipal limits. In certain districts the municipality collects the tolls and gives a portion to the District Board and in others the District Board collects and distributes the toll income. The difficulty arises in practice when both the local bodies entitled to levy tolls uncompromisingly insist in the exercise of their rights and toll gates are placed on the borders of two districts or a District Board and a municipality. Thus, toll gates may be located within a mile of each other and cause not a little inconvenience to the public. The minimum distance between one toll gate and another ought to be at least twenty miles.

In addition to tolls, a progressive source of income is that derived from the fees collected on motor vehicles which ply for hire. These are now levied by each board on some standards and rates fixed by them. The District Municipalities Act does not contain any such provision though there is included in its powers that of licensing motor cars of every description. In practical administration, this leads to anomalies and difficulties which have to be set right in order to make the fee or rate on motor vehicles plying for hire be of substantial help in adding to the revenues of local and municipal bodies.

11. It is no exaggeration to say that the Indian nation lives in the village. Village sanitation, water-supply and communications are very much neglected. If cesses are collected from each village the villagers expect some benefit to reach their village. To organise village panchayats and empower them to levy rates of an illusory nature does seem to entail hardship.

Union Boards in many cases (where there are not flourishing markets) are not raising sufficient funds in the shape of taxes on houses or other property in union limits to meet the cost of establishment, lighting and scavenging. Many of them have to borrow from the District Board. Taluk boards after taxing themselves to the fullest extent are not in a position to make both ends meet, so much so that taluk roads have often to be taken over by the District Boards.

District Boards themselves are not, even after raising the taxes and tolls they are empowered to levy, in a position to keep even first and second class roads in order.

12. While local taxation has reached its ultimate limit, the resources of local bodies are thus not adequate in any case to meet the demands of the services expected from them.

The framers of the Local Boards Act, in view of the obstacles besetting the expansion of local resources inserted in Schedule IV of the Act, the provision enabling the Local Government to (a) transfer annually to District Boards a share of the excise revenue collected in the districts and (b) make such other recurring and non-recurring subsidies as they think fit in aid of the funds of all or any of the local bodies. In Madras a surcharge upon the stamp duty leviable in cases of certain transfers is provided for. In mofussil municipalities a surcharge on income-tax may be levied in lieu of the tax on companies, and of the profession tax in respect of certain classes of persons liable therefor. If local revenue has to be developed it must be by surcharges on the excise revenue and the income-tax and not by increasing the burden on land, nor by imposing a tax on professions or amusements.

13. In union and municipal areas the existing anomalies in land taxation must be removed and local bodies should be empowered to collect a consolidated rate on all lands situated in the union or rural limits on a uniform and intelligible standard. A tax collected by the Crown by virtue of its prerogative on a particular basis and a rate levied by statutory authority by a local body under a different standard of taxation, while throwing an undue burden on the landowner, deprives the union and municipality of the full measure of the taxable capacity of the property within their limits. The value of land in union and municipal limits increases quickly, and these bodies must be in a position to reap the result of the improvements effected by them by assigning the land for terms of years and realizing a proper ground rent.

14. The annual value of houses in municipal and union areas includes both site value and building value. Rates fall on both site and building values and are not imposed separately. Quinquennial revisions of the municipal property tax tap only so much of the unearned increment as expresses itself in annual value. The Financial Relations Committee (1920) in dealing with the taxation of unearned increments observed as follows:—

"The problem bristles with practical difficulties, but we are convinced that the acceptance of a tax on unearned increment by the legislature and its practical application by local bodies depend on its being understandable in theory and workable without difficulty in practice. We cannot attain absolute accuracy in valuations or absolute equity as between individuals. We must be content with abstract justice."

The scheme set out in paragraph 182 of the Committee's report attempts to solve the problem of taxing unearned increment. Though the Committee were equally divided on the question of committing themselves definitely to the acceptance of the scheme, they were unanimous in recommending that the points and proposals embodied in the scheme deserved to be investigated in detail.

A duty on transfers of property assessed as provided in section 135 of the City Municipal Act, if imposed by union boards and mofussil municipalities may in some measure tax "unearned increments" on land within their jurisdiction.

15. "Is it right that the house and land tax and the land cess should be levied in whole or in part from the owner? Is the owner able to shift the burden of the tax on to the occupier?"

Taking land cess first: there is no call for shifting the burden to the occupier or lessee. In practice, lease-deeds fix a rent based on the revenue and cess payable by the lessor to Government and the local body. Public opinion, as already noted, is against the increase of the burden on land, and the local legislature has accordingly limited the cess that could be raised from land as road cess or for local beneficial purposes. If periodical resettlements raise the land revenue, the income of local boards from the cess is proportionately augmented. As rent recoverable by the lessor from the lessee will adjust itself automatically in existing conditions in India, there is no need to legislate in the matter of the occupier of land bearing the land cess.

The transfer of the burden of local rates on houses from the owner to the occupier seems again to be unnecessary in India. Most houses in rural or semi-urban areas as in union boards are built by the owners themselves and not by any "building landlord". Even in urban areas as those within the limits of most municipalities, it is difficult to secure occupiers willing or desirous to pay anything like a reasonable rent. Owners of houses find that tenants prefer to live in what are called "Stores"—cheap tenements—than occupy well built commodious houses carrying a reasonable rent. If the tax is imposed on the occupier, in existing conditions, more insanitary hovels and undesirable congestion will be the result; while buildings constructed by owners at great cost will not fetch anything like even a moiety of the proper rent assessed on the cost of their erection. As things are, occupiers bear a fair portion of the incidence of the property tax. There is no possibility of making them bear more of it. On the whole matters may be best left to adjust themselves, as in this province building operations are carried on almost solely by the owners. In rural areas vacant houses very often do not secure an occupier even without rent, and except in some municipalities the supply of houses exceeds the demand. The tax on buildings on the gross value of the houses levied on the occupier throws the incidence more on the occupier than on the owner. Occupiers in this province willing to face this burden are rarely to be found. My answer to the second part of the question is that the owner should be left to shift the burden on the occupier gradually. The property tax is thus made a first charge on the property and payable by *the owner* of the assessed premises under section 84 of the District Municipalities Act.

It is not useful to institute a comparison between England and India in the matter of the burden to be borne by occupiers or in other matters relating to local self-government. Local authorities in India have for a long time been relegated to the background. It is only from 1920 that they have been accorded some share of autonomy and are recovering from traditions which made them render national services without self-reliance or independence. Local rates adjust themselves according to historical associations and political traditions, and local bodies in this country did not gain the strength to enforce local rates bearing a particular incidence on the occupier, nor have the conditions of the occupier and the demand for houses from him ever been such as to enable local bodies to think of shifting burden of local rates from the owner to the occupier.

I have already shown that the property tax is utilized for services which in many cases ought to be borne from the provincial revenue. I have also indicated that there are few other sources of local revenue than land which should be tapped for local services, and that public opinion is decidedly in favour of limiting the taxes which could be got from land. Local authorities have not had recourse to other forms of taxation which may be less defensible from an economic standpoint for the simple reason that even the sources indicated to them defensible from that standpoint could not in practice be so exploited as to be beneficial in augmenting their resources.

16. There is little doubt in this province, notwithstanding that local bodies have done remarkably well with the limited and slender resources they could command, that the funds necessary to finance national or onerous services in any local area should be borne wholly, or in a much larger proportion than now, by the general tax-payer and should not be raised entirely or partly in the local area. Still the location of such services demands their being performed by and through local bodies. At present even bridges on trunk roads have to be constructed out of funds contributed partly by local boards, as for instance, in the construction of those

over the 'Amaravathi' and 'Mamundiar'. The Trichinopoly District Board has had to borrow on interest a moiety of the funds needed for their construction. The same board constructed another bridge over the Marudaiyar; this is on a district road. Here again a moiety of the expenditure had to be incurred from borrowed funds. Assuming for the sake of argument that the cost of the construction of the Marudaiyar bridge should be borne partly from local rates partly from provincial revenue, there is actually no justification for a similar arrangement prevailing in connection with the 'Amaravathi' and 'Mamundiar' bridges which are on trunk roads. Yet, under the existing dispensation this inequitable arrangement had to be, and a local board bore the charges incurred for a national and onerous service which had legitimately to be met from the funds gathered from the general tax-payer. Such anomalies, I believe, exist everywhere in this province.

As already observed, it is difficult to draw a sharp distinction between national or onerous services and those benefiting a local area. The classification of roads as trunk roads, district roads and other means of communication is based not on the services rendered but on the financial exigencies of the central authority, regardless of the resources at the command of the local authorities. I may say the same thing with all the services entrusted to local bodies, most of them falling in the category of national or onerous duties. I took roads by way of illustration in order to indicate how the services entrusted to local bodies which concern the health and well-being of the citizens of the province have been treated by the central authority, and grants have been made in the past on no standard of utility or equality and led to an unseemly scramble for them. I am of opinion, that grants-in-aid from general Governmental funds should not take the form of an unconditional contribution in general aid of local finances, but they must be based on specific services duly budgeted for. National services should be wholly paid for by the Government. Now that a beginning has been made in freeing the province of the heavy incubus of the contribution rendered by it to the Government of India, the Transferred Departments must be in a portion to meet the cost of the national services and rendered by local authorities on a more rational basis than has had to be adopted hitherto.

It is necessary to readjust the existing classification, if any, of national and semi-national services and the whole subject requires careful examination under the heads of 'Communications,' 'Education' and 'Public Health'. I am in general agreement with the observations of the Financial Relations Committee (1920) in paragraphs 32 to 45 of their report, regarding grants from provincial revenue in aid of the resources of local authorities. It must be realised that no local body is in a position to do justice to the duties entrusted to its care with its resources capable of little expansion; that in the ultimate unit of Indian administration the village, little is done to improve communications and sanitation, render medical aid or impart real elementary education; that union boards and taluk boards enjoy an autonomy without adequate funds which spells idleness or bankruptcy; that District Boards are not in a position to help or control taluk boards; and that most municipalities have not the wherewithal to function to the full measure of their intended usefulness. It is difficult to lay down on what basis the subsidies to local bodies should be calculated; such basis could be definitely laid down only after a detailed and careful examination of the conditions in which they now function and a reclassification of the services rendered by them.

17. With regard to the control to be exercised by the Government over the expenditure of the grant, it seems to me that in this province there exist sufficient safeguards for ensuring a reasonable standard of efficiency. The Government possess statutory facilities for the exercise of control under the Local and Municipal Acts passed in 1919 and 1920. The nature and extent of control to be exercised is in my opinion correctly expressed by the Financial Relations Committee in paragraph 47 of their report:

"It is the duty of the Government to insist that all grants from provincial funds are spent to good purpose. Failure in this would be a grave disservice to the general tax-payer, but meticulous interference with a local body's freedom is likely to defeat its own end. The theory that increased subventions should be accompanied by increased control was discountenanced by the Decentralization Commission, and rightly so. Control over the details of administration is contrary to the spirit of recent legislation. Control is necessary, but we would confine it generally to the scrutiny of broad results, and it should be made effective by financial pressure rather than by executive order. No grants should in our opinion be sanctioned,

except on the clear understanding that the Government are at liberty to reduce or withdraw them, if the services for which they are intended are not efficiently administered".

18. Qs. 167, 168 and 171.—All cesses on land should continue to be collected by the land revenue staff. Collectors and Subdivisional Officers have been relieved of the work of carrying on the administration of local boards as non-official presidents are discharging that function. There is no justification for the maintenance of the revenue staff in its existing strength, if the members thereof refuse to discharge the duties which they deemed legitimately to be theirs, when the presidents of local boards were officials. The collection of tolls and ferry rents must be made part of the duty of the revenue staff. If the profession and companies taxes have to be collected economically, the revenue staff must be employed to do that work.

In municipal areas the work of assessment and revision must be done by agency which is not dependent for its creation or continuance on the votes of the assessors. In the City of Madras Municipality Act the annual value of a building for assessing the property tax is determined by the Commissioner, the rate being fixed by the Council.

Duties on inheritance and succession.—I agree that these duties should be the first among those to be considered in the event of new sources of taxation being required to replace old sources that may be condemned. Something like the duty on inheritance is now levied at varying rates in the shape of fees under Act VII of 1870 on probates and letters of administration under the Indian Succession Act, the Hindu Wills Act and the Probate and Administration Act, and on certificates under the Succession Certificate Act. The broad effect of the existing legislation is that except as regards Hindus, Jains, Sikhs and Buddhists in Lower Bengal and in the Presidency towns, Hindus, Muhammadans and Buddhists are outside the compulsory effect of the Probate Law. Indian Christians have been treated in a special manner in being allowed to take out a succession certificate for the collection of debts instead of obtaining letters of administration to the whole of the estate in a case of intestate succession.

There is, however, nothing to compel a heir or legatee to go to Court to obtain letters of administration or probate or succession certificate if they can get in their assets and administer them without the help of the courts, even in cases to which the abovementioned legislative enactments do apply.

It is only when money has to be recovered by suit or where stocks and shares and insurance policies are concerned or the right of the heir, administrator or legatee has to be asserted in, and recognised in a court that resort is had to the procedure prescribed by the Acts above referred to, and court-fees are collected under Act VII of 1870.

The amounts thus recovered as fees are really taxes; the work done by courts in granting certificates, letters of administration and probate is very little, and it is rarely that applications under these Acts are contested.

The Civil Justice Committee, in dealing with the necessity of having before courts genuine testamentary instruments and preventing oral testaments, observed as follows:

"Whether probate of such wills when made should be compulsory or not is a further and a much more difficult question. Unfortunately, when we come to consider whether probate of such wills should be made compulsory, the question of law reform meets a question of finance. Taxation is a matter beyond our province, and it is no concern of ours to advocate that any estate be burdened with additional taxation. We do not think that any extension of the Probate Law would have much chance of favourable consideration in any province if it be regarded as a manifest forerunner of serious additional taxation. The incidence of the court-fee, which we may refer to as probate duty, is controlled by diverse considerations which lead in the end to considerable anomaly. There is necessarily a considerable inequity in any system which exacts probate duty in the case of a will but not in the case of intestate succession. We appreciate, therefore, the difficulty of the financial question. Considering the matter entirely in the interests of the administration of law, it appears to us, however, to be a pity to rule out an extension of the provisions of the Hindu Wills Act to provinces outside Lower Bengal for purely financial reasons. If the financial difficulty can, in any reasonable way, be accommodated, we think that it is worthy of consideration whether to enable a proper probate system to be applied to Hindu Wills generally throughout India, some differentiation might not be made as regards probate duty, according as the testator had

deposited the will in his lifetime with the registrar or registered it under the registration law or had omitted to take either of these precautions. We do not think it is advisable to insist upon the registration of wills or the compulsory deposit thereof with the registrar, but to encourage deposit or registration would be highly useful."

The hesitation evinced by the Civil Justice Committee in unconditionally recommending the admission to probate of all wills within a reasonable time after their execution is based on the opposition to any measure which may directly or indirectly lead to taxation. Yet the law as to wills is in the Hindu Law, as it is in the Common and Civil Law a late addition. The growth of the testamentary power depended upon the degree to which the control of the testator over his property was admitted. The extent of the testamentary power corresponds with the amount of control that an owner may possess in giving it away in specie as in the case of his separate or self-acquired property. No rule of Hindu Law will be contravened by making probate compulsory in the cases of all wills and the extension of the Hindu Wills Act to areas not within its operation at present. Muhammadan wills will be but partially valid. They could be admitted to probate to the extent of their validity under the Muhammadan Law. There will be little difficulty in practically administering a taxative scheme so far as testamentary succession is concerned. What is collected as a fee now under the Court-fees Act, and is in my opinion really a tax, may be levied as a tax and collected from every estate which is the subject of testamentary devise. But wills registered or deposited with the registrar during the lifetime of the testator must be differentiated from those which are not.

The considerations applicable to intestate successions are, however, more complicated. Real difficulty will be experienced in the application of the principles of inheritance taxation to cases in Malabar and Kanara where partition is not allowed, and the idea of heirship would never present itself to the mind of any member of the family and to joint Hindu families governed by the Mitakshara Law. Any practicable measure of taxation must exempt from its scope such cases. I am not in favour either of a tax on the share which devolving by survivorship augments the shares of other members of the family, nor of any tax on the whole property on the death of each managing member. In the former case there is no succession. In the latter case the suggestion is crude and unenforcible in practice. Every family need not have a manager; there is nothing against there being more than one managing member, and all the members of a family may be actually managing their family dividing their duties according to the nature of the business to be transacted or the location of the property to be managed.

I should prescribe Rs. 5,000 as the exemption limit in India in cases other than those dealt with above, which have to be totally exempted if any inheritance duties must be levied.

Qs. 138, 139 and 144.—On abstract principles I may be willing to subscribe to what is set out in Qs. 138 and 139 (1) and (2). But I have already indicated the exemptions which should be provided for in India. Even Indian Christians who were long submitting to the statutory provisions of the Indian Succession Act had to be accorded special treatment. Unchanging rates may be levied in order to secure equality in the distribution of this burden. But in India they cannot cover the whole of the economic community represented by the nation.

The graduation of taxes according to the three principles referred to in Q. 138 could be applied only in cases to which the Hindu and Muhammadan Laws of Succession do not apply. The rationale of succession amongst Hindus and Muhammadans cannot be canvassed or altered by the formulation of any scheme of fiscal taxation. The tradition is so long established that the personal laws of the diverse communities with varying religious beliefs should be respected that it is extremely inexpedient to attempt to interfere with them by a taxative measure calculated to upset the tradition.

Moreover, court-fees have been so far levied in cases which came up before courts. The payment of such court-fee was enabled to be enforced where and when the aid of law courts became necessary. This is the broad result of the existing legislation bearing on probates and letters of administration. To compel the payment of these duties by a taxative law only by some proportion of the whole nation must engender the feeling that there is an unjust differentiation in the levy of the tax.

In my experience, movable property other than stocks and shares escape liability to pay the court-fees on probates and letters of administration. Nor do I see how they could be successfully taxed by any law of duties on inheritance. The staff to be maintained to do it will cost more than the resultant benefit to the State. There is too the fear of letting loose on the public an inquisitorial and harassing agency without corresponding accretion to the public revenue.

Where real property is concerned, the valuation of the same presents no little difficulty. The valuation for court-fees, suits valuation and stamps must be co-ordinated with that for the death duties, if any, which may have to come out of the property.

Considering the subject from every point of view it appears to me to be not expedient to levy a tax on inheritance and succession except in a qualified way on legacies and testamentary succession.

Court-fees.—The problems relating to the levy of court-fees and the valuation of suits (under the Court-fees and Suits Valuation Act) loom prominently in the prevention of laws' delays by devising some rational method calculated to curtail second appeals. Suits relating to land of the value of nearly Rs. 20,000 have to be heard by District Munsif whose pecuniary jurisdiction is Rs. 3,000. Money suits and suits relating to property assessed at a market value of Rs. 3,000 very often heard and decreed *ex-parte* are placed in the same category as suits for injunction relating to such property. The former class of suits occupy but a few minutes of the presiding judge's time, whereas the latter occupy days or weeks of the court's time. Something must be devised to distribute the burden according to the benefits rendered. The tendency is, however, to make fees serve the purposes of taxes. This must be deprecated. The complaint in most provinces is that court-fees are collected disproportionately to the benefits received from, and services rendered by, courts.

Stamps.—In India the penalty levied on unstamped or insufficiently stamped instruments has always struck me as unduly hard. In trade accounts maintained in the mofussil, as they are now and are bound to be for a long time to come, acknowledgments of probative value have to be accepted in evidence by a straining of the provisions of the Stamp Act. The Civil Justice Committee has recommended writing and registration in many transactions not requiring writing now, like partitions, releases, surrenders and maintenance agreements under the Hindu Law. But once a transaction requires writing and registration, the stamp law will be invoked for making them legal. It is unjust to engraft a taxation law on any measure of legal reform for providing for certainty of title or reduction of oral testimony in proof of transactions coming up before courts for adjudication. In readjusting stamp duties this consideration of public policy has to be borne in mind and transactions not hitherto requiring writing and registration must be dealt with so as not to penalise or tax measures for placing evidence of an indubitable kind before courts.

Sir T. Desikachari gave oral evidence as follows :—

The President. Q.—You have been associated with local bodies and municipal administration for a good many years?

A.—Yes, Sir.

Q.—You have been a Member of the Legislative Council for a considerable time?

A.—Yes.

Q.—You have been a Member of the Civil Justice Committee?

A.—Yes.

Q.—You have been good enough to send us two notes one on 'local taxation', and another on 'inheritance'.

A.—I must apologise for not having been able to devote more time to the questionnaire as I was very busy when I returned to my place after touring with the Civil Justice Committee. You will therefore excuse me for the meagre notes I have sent.

Q.—If you have anything more to say, you can send us a detailed note.

Sir Percy Thompson. Q.—I think the general inference to be drawn from your memorandum on local taxation is this. That in recent years new functions have been cast on local bodies without adequate resources or with no means of raising additional funds by taxation, and the conclusion you come to is that a considerable proportion of their expense should be borne by the provincial funds?

A.—That is the gist of what I have stated. That is generally felt in this province.

Q.—A very considerable proportion of the expenditure on education and national services is borne by the provincial finances?

A.—On elementary education it is; I think the proportion on that would be something like 65 or 70 per cent.

Q.—That is a big proportion.

A.—Yes, but you will have to take the peculiar condition prevailing in this country. Elementary education is entirely a national service.

Q.—It has never been treated like that in any other country.

A.—From the perusal of the books I find it is not treated in that way, but in India it has to be treated in that way.

Q.—In what way India is different from other countries?

A.—Education has been neglected greatly, and elementary education is one of things which must be fostered for the purposes of the national cause. If you want to have a good electorate or if you want the franchise to work properly and if you want to improve all the departments, elementary education is the backbone, and I, therefore, do think that it must be treated differently in this country and in any other country.

Q.—I think you will admit that if education benefits the individual, surely the families of the individuals concerned should bear part of the cost?

A.—True. As a matter of fact, they are bearing a certain proportion, but so far as local bodies, municipalities, village panchayats and village educational boards are concerned, they are not in a position to find the money. If they are able to raise a local cess and if they find it only for the elementary education in rural areas, it may be said that the benefits that are received by the locality must be paid for by the locality, but under the present circumstances, the President knows how the local bodies in this Presidency have been getting on, as we had a very interesting note from him in one of his budget speeches, it is impossible to say that elementary education must be paid for by the local bodies.

Q.—That will mean that the Provincial Government will have to raise additional funds in order to increase the subsidy.

A.—I may agree to that.

Q.—Where is it to raise additional funds? It will have to be from the whole province.

A.—I may agree to that. I happened to be a member of the Select Committee which was responsible for drafting most of the local bodies Acts. That was their view also.

The President. Q.—Including the Village Panchayat Act?

A.—Yes, all the Acts between 1919-20. The matter was considered by a representative committee, even before it came up before the Legislative Council: all along it was acknowledged that it was impossible to raise any money by increasing the local rates on lands or by levying local taxes like profession tax, etc. When the Madras Municipality Act was framed, they had a surcharge on the stamp duties. When the District Municipalities Act came up, they contemplated having something in the nature of a surcharge on income-tax, but the Government of India objected to it, and therefore it took the form of a profession tax or a tax on companies. When the District Boards Act was revised, it was again felt that it was not possible to do anything to increase local rates. Section 4 of one of the schedules to the Act authorized a surcharge on the excise revenue, and it was also recognized that there must be subsidies from provincial revenues from time to time in order to help the resources of the local bodies.

Q.—My only point is really this: if the Provincial Government have to raise additional funds, won't it be compelled to raise them from the very sources from which the local bodies would raise them?

A.—No, Sir. The general opinion is that a surcharge on income-tax and excise revenue may meet the case.

Q.—Is not a profession tax really a surcharge on income-tax? Is not the companies tax really a substitute for income-tax on the profits of companies?

A.—As far as my experience goes in the mofussil, there is very little which can be raised as companies tax. So also profession tax is very small compared with the local needs.

Q.—Is it not possible to raise the rates? That is what the Provincial Government would have to do if they wanted to raise additional money.

A.—There is a large amount of income which escapes taxation. If it is not an actual income-tax, the Provincial Government may raise something in aid of the local resources from the agricultural income which is not taxed at all.

Q.—That is again raising a very big question.

A.—With the talent present here, no question need be big, Sir.

The Maharajadhiraja Bahadur of Burdwan. Q.—Don't you think, if there be a difficulty politically or otherwise on putting an income-tax on agricultural incomes, there are still possibilities of those agricultural incomes being assessed in future by local bodies in some shape or other?

A.—I must confess there is a very large body of feeling against agricultural incomes being assessed in any way; land is already very heavily taxed and it is not possible to add any more burden. Moreover, Taluk Boards and District Boards cannot profitably or conveniently levy any profession tax, nor anything similar to the companies tax. The only thing you can possibly do is to have some local rate upon agricultural rents in those areas.

Q.—What you would have to do is to have some specific purpose for these taxes, in the same way, as you have road and public works cess which is collected with the land revenue and then handed over to the local bodies. In the same way, supposing the local bodies were to levy something on agricultural incomes, they would raise it not as land revenue, but they would raise it for some local purpose. I ask you a general question. Supposing there were difficulties in levying an income-tax on agricultural incomes, whether for political or other reasons, don't you think there is a possibility in future of local bodies getting an income from agricultural incomes in some shape or other?

A.—If it is to be for benefits rendered, I do not think there will be much trouble.

Q.—What I mean to say is that there will be less trouble in getting local bodies to tackle these local incomes for the local purpose than there would be in assessing agriculture incomes to the general income-tax.

A.—Yes.

Dr. Hyder. Q.—There are two things which you spoke of: one is a surcharge upon income-tax, and the second is subjecting agricultural income to income-tax. I suppose these are two different matters?

A.—Yes, they are two different matters.

Q.—Supposing you cannot subject agricultural incomes to income-tax, there is the other alternative that you will make a surcharge upon income-tax: now then, the principle laid down by you is this, that this money should be spent for the benefit of the locality.

A.—Not like that. What I meant to say is that they could be earmarked for certain services.

Q.—Have you got many people in rural areas who pay income-tax?

A.—The vast majority of them do not pay any income-tax in the rural areas.

Q.—So that you will realize very little?

A.—No. Agricultural incomes are not assessed under the Act. You cannot at present assess agricultural income unless coupled with the general income which they have, and which is liable to assessment.

Q.—If I understand your answer, it is this: land is already heavily burdened, and according to your view it cannot stand any more.

A.—That is so.

Q.—So that the proposal to subject agricultural incomes to income-tax meets with a large volume of opposition?

A.—It is like that. What I suggest is that there is a line of least resistance, but I do not believe anybody would like to have agricultural incomes assessed, because it is believed that it amounts to indirectly burdening the land.

Q.—But things would be easier if this money were spent for the benefit of the locality.

A.—Yes.

Q.—Then there is the further question seeing that the people who are in receipt of agricultural incomes belong to the higher classes, whether they would shoulder the monetary sacrifice if the benefit would be conferred on some other class, people who cannot afford to pay for the expenses of elementary education?

A.—That is a question which cannot be answered in a simple manner. There are people who have agricultural incomes and the vast majority have no agricultural incomes, and these latter people have got children who have got to be educated as a national concern. The former who are employing these cultivators for the purpose of agriculture would not perhaps object to the amount being used for elementary education.

Q.—Perhaps they might see that it was in their own interest.

A.—As I told you, in this province land has been felt to be overburdened, and possibly there will be a great volume of opposition to any burden upon agricultural income; but if you want to collect any rate for the purpose of local services, which partake of a semi-national character, you may perhaps think of rating agricultural incomes.

Q.—Should a surcharge upon excise revenue be spent for the benefit of the locality, and would people pay this willingly, in view of the fact that the benefits go to themselves?

A.—This is a matter which was discussed when the Local Boards Act was under preparation. The question was considered as to whether money that might be surcharged upon excise revenue might be used for a particular locality or not. As you will find in the schedule to the Local Boards Act, it was purposely left vague, and it was understood that any surcharge on excise revenue should go to augment the resources of local bodies, without earmarking it for any particular locality or any particular service.

Dr. Paranjpye. Q.—Regarding your contention that education is a national service, do you want that the whole cost of elementary education should be borne by the general tax-payer and not by the local body?

A.—I was going to say that secondary education also comes within these Acts.

Q.—But if local bodies cannot manage elementary education, much less can they manage secondary education.

A.—Local bodies seem to be in a position to manage secondary schools much better than elementary schools. Secondary schools are fairly popular, and, having regard to their number, they are fairly well patronized.

Q.—Would you advocate Government not only bearing the whole charge of elementary education, but also taking it into its own hands and managing the schools?

A.—Having regard to the history of elementary education in this province, particularly after the Reforms, I think Government are taking it into its own hands. We do not know what is eventually going to be done, but so far, the drift seems to be in the direction of having as much control over education as possible.

Q.—According to your scheme, Government would have to pay the piper.

A.—I should absolutely have no objection to Government treating it as the State's function and managing the institutions themselves.

Q.—You suggested a surcharge on excise. At present liquor shops are sold by auction, and consequently a high price is being paid for them. If you have a surcharge on these liquor shops, don't you think that the prices will be much less, because the bidders will take into account the fact that they would have to pay a surcharge. You would, therefore, be practically taking part of the excise revenue.

A.—It is part of the excise revenue that is mentioned in the Act.

Q.—But you won't get any new money by means of the surcharge.

A.—I am willing to admit that.

Q.—It comes to Government paying you a part of the excise revenue that is obtained within the limits of that local area.

A.—I think that is the very wording of the Local Boards Act provision. The matter of giving a proportion of the excise revenue, as contrasted with the surcharge on excise revenue, was considered by the Financial Relations Committee in this province, and after discussing the *pros* and *cons* of the whole question, they came to the conclusion that a surcharge was much better than earmarking a fractional share of the excise revenue.

Q.—You have yourself admitted that the surcharge is only a portion of the existing excise revenue.

A.—That might be.

Sir Percy Thompson. Q.—I think the policy of the Madras Government in the matter of excise is maximum revenue and minimum consumption?

A.—Yes.

Q.—You have already got maximum revenue, because you have pushed your rates up as high as possible, and if you push them any more, the yield will be less. How can you put a surcharge on that?

A.—I do not admit it is maximum revenue.

Q.—Isn't that the policy of Government?

A.—The policy of the Government must be modified in accordance with the demand of local bodies.

Q.—Won't you admit that the rates at present imposed are the maximum that could be imposed?

A.—I don't. If you go on raising them, you would get more revenue. The Government are carrying out their policy slowly and gradually.

Dr. Paranjpye. Q.—Are you in favour of prohibition?

A.—If it is possible.

Q.—At any rate, you are in favour of temperance reform and you would limit the consumption of alcohol?

A.—My own idea is that you cannot make a nation sober by legislation.

Q.—The public feeling is in favour of temperance reform: if it is not to be attained immediately, at any rate, that is the goal to be reached.

A.—I don't know what the public feeling may mean: there are a large number of people who do not understand anything about it.

Q.—Don't you think that giving the local bodies a portion of the excise revenue and so making their finances dependent upon excise revenue will come in the way of carrying out this policy and reaching this goal?

A.—No; so long as you collect excise revenue and as long as you go on getting increasing amounts, let local bodies get the benefit of it: if you get less, let them get less. The local bodies will not be in the way of total prohibition or rationing.

Q.—When they feel that the policy of total prohibition or a vigorous temperance policy is likely to reduce their income, aren't they likely to be against that policy?

A.—No.

Q.—I will give you an illustration: take the case of tolls. Theoretically, everybody agrees that tolls are a nuisance.

A.—I don't agree.

Q.—Don't you consider tolls are a nuisance? They may be inevitable.

A.—You must take temperament into consideration: personally I don't consider them a nuisance.

Dr. Hyder. Q.—Are there a large number of people in Madras who are of this temperament?

A.—I have been connected with local and municipal institutions for the last fifteen years and I have administered toll revenue all that time. I have been connected with innumerable toll gates, but I had very few complaints from cartmen that they were unable to get on without annoyance. The cry that has been recently put forward is from motorists who are anxious to rush through space.

Q.—You said that elementary education was a national concern: is higher university education also a national concern?

A.—I am speaking here, as I said, as a person who has been dealing with local boards and municipalities: so far as they are concerned, I do not believe they have much to do with university education, and I do not think that their usefulness ought to be strained by any responsibility with regard to university education.

Q.—The position is that a large amount of money is raised in land revenue, local rates, cesses and income-tax from rural areas, but those who contribute more in bulk do not get the benefits, but the benefits of this revenue go entirely to a different class of people.

A.—I agree that such a thing does happen, but it is inevitable: every person paying revenue, may not have a son to be educated. It is inevitable that every person who pays a tax should not expect a direct benefit: he gets an indirect benefit, viz., advancement of the nation and the improvement of his surroundings.

Q.—The fact is that elementary education has been neglected.

A.—Yes, it has been.

Q.—It is these very people who reside in these hamlets and villages that work hard, maintain themselves and contribute to the existence of the State. With their labour they provide money which is spent in the cities upon different classes.

A.—I do not quite follow. The labouring classes do not often pay any tax. They lead a hand-to-mouth existence. The majority of them are lessees or cultivators or servants of landowners; so far as they are concerned, they pay very little as rates except under the Village Panchayats Act.

Q.—All that has to be done is to alter the proportion in which this money is divided between elementary and secondary education in the rural areas and higher education in cities.

A.—That is one means I suggest. You must also have a strict classification of what are national and semi-national services, and how the subsidies from Government should be allocated.

The Maharajadhiraja Bahadur of Burdwan. Q.—While there would be very great and general opposition to levying an income-tax on agricultural incomes, you think the opposition would be minimized if you tax agricultural incomes for local rates?

A.—Yes.

Q.—The idea which you personally favour is that you would rather see agricultural incomes used for local rates than levy an income-tax on agricultural incomes?

A.—That is my personal view.

Dr. Hyder. Q.—Suppose you cannot raise money for the development of your local areas, why should you not levy poll tax at Re. 1 per head? This money would be spent upon elementary education in the very areas

where it is raised. This suggestion has not got the evil odour of a tax for the reason that in America they levy poll tax for two purposes, i.e., for construction of roads and elementary education. What do you think of this suggestion?

A.—I object to it: here it is not advisable to have a poll tax. The vast majority of the people are poor, and most of them are labourers. People already pay municipal taxes, local cess, education cess: if I go to a village I must pay for the village something as my contribution under the Village Panchayat Act. For irrigation I must possibly carry a load of mud in my basket or find compulsory labour: that is the way in which the ordinary man will view the question. I have not considered the matter carefully, but I do not think that there will be a considerable amount of opposition to anything like a poll tax. "We have taxes enough" is the prevailing feeling.

The President. Q.—I understand that you agree with the various witnesses who have told us that taxes locally assessed, locally collected and locally spent are much more readily paid than taxes collected by the Provincial Government. We have been told that there would be no objection if land tax were spent in the locality. Under the new administration of the village panchayats, villages are taxing themselves to the extent of 20 per cent of the land revenue. Would you have the most determined opposition to such a tax?

A.—So far as village panchayats are concerned, they are organized in selected villages after the consent of the inhabitants is obtained to do certain things which are for the benefit of the village in common. They are strictly speaking not taxing themselves. The headman is in charge of the village fund. In some places there are what are called duck taxes, grass taxes or something collected for the village *tamasha*. That is the nucleus of the village fund. It may form a substantial proportion of the fees they pay.

Q.—We have been told that they levy octroi.

A.—I do not think they do. A cartman may be willing to pay one rupee for the whole year, or a village dramatic troupe may be willing to pay an annual contribution to come into the village periodically: it is worked out as a sort of family arrangement.

Q.—Would money be available for elementary education?

A.—I am afraid, not. The Registrar-General of village panchayats himself admitted at a recent conference that very little money was available for this purpose, and if possible, local boards must pay a contribution to village panchayats.

Q.—The idea that the taxes locally assessed and collected are much more readily paid does not apply to local board taxes.

A.—The local board cesses are collected with land revenue. It has become a *mamul* from 1866.

Q.—Other taxes, e.g., the union house tax, profession tax, etc., are collected by local authorities.

A.—There is a difficulty in collecting them; many Unions are unable to get in their taxes. I propose that they should be collected by the revenue staff; I have also suggested that profession and companies taxes are illusory. Three local boards have already applied to me to have the profession tax notification cancelled with the permission of Government, because they think that the expense of collecting the profession tax is much more than the resultant benefit.

Q.—I understood you to say that there would be far less objection to a local rate on agricultural incomes than there would be to an income-tax on agricultural incomes.

A.—Yes, that is what I said.

Q.—Why is it so?

A.—Because people think the local rate goes to the local benefit.

Q.—Wouldn't that apply to other taxation?

A.—But your question was whether it would be more readily assessed and more readily paid. I am answering with regard to the readiness.

Q.—May I substitute 'willingly' for 'readily'?

A.—I think more willingly than as a general tax.

Q.—There will be less objection to paying a local board tax than a provincial tax, and yet you say that, if more money is required, it should be levied by the Provincial Government and paid over to the local boards.

A.—My premises assume that local resources cannot be augmented in this way. Local taxation has reached the ultimate limit.

Q.—If you want to get more money for elementary education, for instance, you are going to get it from the same people whether you take it as a provincial tax or a local board tax. Why then do you recommend that it should be paid as provincial tax?

A.—I want a portion of the provincial tax to be given to me. There may be ways of doing it without increasing the tax.

Q.—You say it would be much more willingly paid if it were a local tax: then why make it an unpopular tax and pay part of it to the local body?

A.—In regard to a specific question, I said that people would like to have a rate upon agricultural income for local services much sooner than have an income-tax on agricultural incomes.

Q.—You would not apply that more generally?

A.—No.

Sir Percy Thompson. Q.—You think that the people in the locality would more willingly pay a tax—never mind who collects or assesses it—if the proceeds were to go to the benefit of the locality and not of the whole province?

A.—Yes.

Q.—As to the comparative advantage of its being assessed and collected by the local authority or by the provincial authority and paid for to the local authority, that is a mere matter of convenience of administration. Is that it?

A.—Not exactly.

The President. Q.—Perhaps it is a matter of the size of the area. If it is collected in a village and spent in the village, you would agree that it is less likely to be unpopular. The popularity decreases as the area increases.

A.—As the area increases, it would be very difficult to assess or collect the tax.

Sir Percy Thompson. Q.—Supposing you did levy an income-tax on agricultural income would it bring in very much?

A.—I think there are quite a large number of people who get an income of more than Rs. 2,000 from agricultural land.

The President. Q.—I think there are about 2,000 people in Madras paying a land revenue of Rs. 500.

A.—A land revenue of Rs. 500 is not necessary for an income of Rs. 2,000. A person who pays Rs. 500 as revenue is likely to get more than two or three times Rs. 2,000.

Dr. Paranjpye. Q.—Do you say that a man who pays a land revenue of Rs. 500 makes an income from land of Rs. 6,000?

A.—His gross income may be that, and even more: his net income would be something like Rs. 4,000.

The President. Q.—The Advocate-General has suggested that ryotwari lands may be valued at fifty times the revenue payable on the lands.

A.—That is a matter which attracted the attention of the Civil Justice Committee during the last year with regard to the valuation of suits. There are suits of the value of Rs. 3,000 which go to a munsif. But suits of the value of Rs. 3,000, relate to land paying only a revenue of Rs. 300. Land which pays Rs. 300 as revenue is worth Rs. 30,000. I may tell you that a piece of land which paid a revenue of Rs. 126 was bought for Rs. 17,400.

Q.—You have a list of the number of *pattas*: does not that take into account all the joint *pattas* or the number of single *pattas* held by one individual?

A.—This does not indicate the actual number of people with an income of more than Rs. 2,000. There may be people who have *pattas* for very small amounts, but whose income from land might be large. It is not possible

to conceive of any proportion between revenue derived from the *pattas* and the actual value of the land or the income from it without careful investigation regarding the quality of the soil and its irrigation sources.

Q.—We have rather been influenced by the statement from another province as to the number of *pattas* of small size. Your view would be that the number of people paying Rs. 500 land revenue would be no indication of the number of incomes of Rs. 2,000?

A.—Absolutely no indication. There may be a number of people who pay a revenue of Rs. 100 or Rs. 150 whose income may be more than Rs. 2,000.

Sir Percy Thompson. Q.—Who are actual cultivators?

A.—Ordinarily when the man makes a calculation of his expenses and income, both will balance. That is with reference to the petty *pattadar*. With regard to the *pattadar* of Rs. 200 to Rs. 500, they merely let their land to other people who are actual cultivators.

The President. Q.—If you begin to find *pattadars* paying Rs. 100, that would include men with an income of Rs. 2,000?

A.—Yes.

Q.—In paragraph 9 of your note you say, "The assessment and collection of the 'profession' and 'companies' taxes are attended with considerable difficulty". But is it not a fact all over India that the agriculturist pays a good deal more towards the local services than the non-agriculturist?

A.—Yes; it is true.

Q.—In particular, objection has been taken to the fact that whereas there has been no exemption in the case of an agriculturist, however small his income may be, the professional man with an income of Rs. 2,000 and downwards contributes very little indeed towards the local or general expenditure.

A.—Yes.

Q.—Have you any method of making the money-lender, the small shopkeeper and persons of that kind contribute towards the local services?

A.—I have tried my best and I do not find a way out of the difficulty. There are people who are exercising some sort of profession in rural areas, who perhaps have incomes which could be assessed under the Local Boards Act; but I have been receiving reports repeatedly that it is impossible to assess or collect anything from them, because, in the first place, they do not maintain any accounts. So on what basis are you going to get at the village money-lender, for example?

Q.—It has been suggested to us that a license tax might be imposed—simply charge so much on the profession without regard to the income.

A.—I forget now whether for the exercise of a profession a license has to be taken; but there may be some such license prescribed.

Q.—It was suggested by Mr. Gopalaswami Ayyangar that there is a considerable fund to be made out of the licenses.

A.—I think it is a possible way of getting at the people who now evade the profession tax.

Q.—The parent of the Income-tax Act was the License Act which touched even incomes of Rs. 250.

A.—Yes.

Q.—And some of the European countries have no limit of exemption to the income-tax.

A.—If you are to do anything with regard to the profession tax, it must be done by a census taken with reference to the persons engaged in the professions, and a large number of professions have to be licensed. And that must be done by the land revenue staff; it is beyond the means of the local bodies.

Q.—I am assuming that you use the agency of land revenue staff.

A.—Then there is something to be got.

Q.—As regards motor vehicles and tolls, do you think that the difficulty would be met if they impose a provincial tax similar to the tax in England with reference to horse power and the proceeds were handed over to the

road board for distribution among the local bodies? This would free all motor vehicles except taxis plying for hire from tolls throughout the Presidency.

A.—I think it is possible under the existing statute to compound the licenses for all motors in each district. Why should not that be done with regard to all such vehicles in each locality?

Q.—If you have this provincial tax on motor cars graded with reference to the horse power, you could then exempt all motor cars from tolls.

A.—May I point out that very little inconvenience is felt by motor car owners when they pass the toll gates. I have passed through many gates; I get down and pay the money and go on.

Q.—My experience is different. I have to get down from the car and it will take at least five minutes for the man to come out of the box. On more than one occasion I had to go away without paying the amount and then send it with a letter to the President of the District Board.

A.—We may have more rigorous rules with reference to that matter. If there is any fault on the part of the gate-keeper, we may fine him heavily. But I do not think there will be any insuperable difficulty.

Q.—My own experience is that invariably the man will have the bar put against you as soon as he sees the car at a distance.

A.—Yes; the other day Mr. MacEwan also had some trouble. The gate was closed at night, and there was no light, and he had an accident. There are such instances; but at the same time I do not think the evil is so great as it is made out to be.

Sir Percy Thompson. Q.—The tendency is to abolish tolls everywhere.

A.—Perhaps we have tolls only in this province and probably in Bombay also. I was going to say that having regard to the revenue of the local bodies, the toll income is a substantial portion of their revenue. It is about 26 lakhs in this Presidency.

Dr. Hyder. Q.—In the case of the Dharapuram Municipality, the tolls contribute 50 per cent of the total revenue, and those of other municipalities contribute 7, 10, 14 per cent.

A.—I am talking of local bodies generally. Nearly 30 lakhs of rupees is the income from the tolls all over the Presidency. That works up to an average of one lakh for each district. It is not negligible. Having regard to the past history of tolls in this province, we have to continue the tolls however troublesome they may be. They yield a substantial income and it is very difficult to interfere with them. What else are you going to do in this province?

The President. Q.—One of alternatives suggested is that you should levy from the agriculturist a small addition to his cess which would exempt him from the tolls, and from the other owners of vehicles, a vehicle tax.

A.—I object to that. That is not the correct thing to do. So far as the agriculturist is concerned, vehicles which carry manure or seed within a radius of two miles from the village may be exempted, and are exempt in some districts from payment of the toll. I do not believe it really works a hardship on *bona fide* agriculturists.

Sir Percy Thompson. Q.—Would you object if you have a compulsory tax on motor vehicles which would be exempt from tolls, and a compounding tax on other kinds of vehicles: they will be free from tolls if they like to pay it?

A.—In theory, it is all right. But in practice, it will work considerable hardship and inconvenience. It will not be possible to predict whether a cart goes once or fifteen times through the gate.

Q.—The man knows ordinarily what he is going to do with his cart. He will say "I am going to take out the license".

A.—The real objection to that is that the man who passes the toll gate often will be the first to say that he would pass the toll gate rarely.

Q.—When he pays the license he gets a mark on his cart.

A.—How are you going to differentiate between a man who does not use the gate and a man who uses it many times? As far as I understand it, it is for the use of the road that he pays.

The President. Q.—In fact, most of the District Boards have a compounding rate.

A.—Yes. They have a statement taken as to whether it is a genuine case, and whether the average number of times that the man goes would be within the minimum, and whether he is doing so for certain specific purposes.

Sir Percy Thompson. Q.—Why is it necessary to ask that question at all? Why don't you allow a man to compound if he wants to do so?

The President.—I do not think it is the usual procedure.

A.—Very few do it. The compounding fee, if collected, would hardly form a two-hundredth of the total income.

Mr. T. R. VENKATARAMA SASTRI, Advocate-General, Madras, was next examined along with Sir T. Desikachari, Kt.

Written memorandum of Mr. Venkatarama Sastri.

In the event of new sources of taxation being required to replace old sources that may be condemned, the imposition of a tax on property changing hands at death may well be considered.

Duty levied under the existing law on the grant of probate and letters of administration is of the same nature as the tax proposed, but its incidence is uncertain and unequal and it does not fall effectively on all cases of succession and inheritance. Except in the presidency towns of Madras and Bombay and the province of Bengal, probate and letters of administration are not compulsory in any sense, and the executors and heirs of deceased persons can deal with their estates as effectively without, as with, probate or letters of administration. Debts due to the deceased cannot indeed be recovered by suit without a succession certificate, the production of which is necessary for obtaining a decree or an order by way of execution. But succession certificates may be obtained in respect of, and limited to, those debts that cannot be recovered except by action and do not involve the payment of the tax on the whole estate. The result is that in places other than those specified above there are comparatively few cases where succession duty is collected. The tax is practically confined to succession certificates which cover only part of the outstandings due to the estates of deceased persons.

In the towns of Madras and Bombay and the province of Bengal, probate and letters of administration are compulsory under the Hindu Wills Act. They are not compulsory in the sense that the executors and heirs are obliged to obtain probate and letters of administration and pay the duty in every case. Intending purchasers of the property of the deceased and the debtors of his estate may ask for the production of probate or letters of administration for their own security. It may, however, be that the executor or heir does not need to dispose of any property or to recover any debts by proceedings in courts, or intending purchasers of property do not insist on the production of probate. The result is that even in these places where probate or letters of administration are necessary for effectively dealing with the estates of the deceased, it is not in every case that the one or the other is obtained and the tax duly paid. It is necessary, therefore, to make the duty leviable on all cases of inheritance or succession whether or not proceedings are taken for obtaining probate or letters of administration or succession certificate.

We start then with this that succession duty is to be imposed and collected in all cases where property changes hands at death. One is confronted with no difficulty where the property exclusively belongs to the deceased person. But what is to be done where the property belongs to a joint undivided Hindu family governed by the Mitakshara Law? According to the true theory of joint Hindu family every male member born into the joint family acquires a right by birth in the undivided estate belonging to the family. No person has a specific share until a partition is actually made. But at any given moment there is a definite share to which each member is entitled in the sense that if a partition were then made, he

would be entitled to have that share allotted to him. If the member dies without obtaining a partition, his potential share lapses to the family by what is called survivorship. There is in strict legal theory no property passing on his death to any other member. Though this is good Hindu Law, it cannot be used and ought not to be allowed to be used to resist the levy of the tax and indeed the High Court of Madras included the value of the share to which the deceased person was entitled in joint family property for the purpose of calculating the probate duty that had to be paid on his estate. To exempt a joint Hindu family from taxation on the ground that no property passes on the death of a member to his heirs is unjust to those Indians that are not governed by the Mitakshara school of Hindu Law and makes the incidence of taxation unequal. I put aside, therefore, the idea that a joint undivided Hindu family is not to be taxed on the ground that theoretically there is no succession in a joint Hindu family. I proceed on the footing that for the purposes of this tax each member of a joint Hindu family is entitled to a specific share of ascertainable value by which the joint family benefits by his death without effecting a partition.

The next question is, when and how the joint family is to be taxed. There are three alternatives suggested in the questionnaire. The third alternative of a corporation duty I put aside because it is unfamiliar to me. I am not satisfied with the first or the second alternative, but I suggest what might be said to be a combination of both. I do not like the first because it involves a harassing levy of tax on the share of each child that might be born into the family and die within 24 hours of birth. In large typical joint families this might happen pretty frequently and it would be extremely inconvenient if the death of each person born into a joint family involved the payment of the tax. Either this mode of fixing the tax must be abandoned as unsuitable, or it must be laid down that the death of no member of the joint family who is not an adult or who is not above a certain age at death should involve the payment of the tax, except when he happens to be the sole owner of the property.

The second alternative is the levy of the tax on the death of the managing member of the family. The net result of the course may not be inequitable, but I can conceive individual cases where the method may bear hard on the family. I should personally prefer to levy the tax on the topmost member of each branch and on the value of the share of his branch. That is to say, the joint family in the Mitakshara provinces should be treated for the purposes of this tax exactly as if it were a Dayabhaga family. To make the matter clear, let me take by way of illustration a joint family consisting of a father and four sons with grandsons by each son. On the death of the father and manager of the family succession duty will be payable on the full value of the family property exactly as if he were the owner and his descendants took the property by inheritance from him. The eldest son will succeed to the management of the joint family estate. On his death the family will on this alternative again pay a full tax on the family property and the same thing will happen by the other three sons successively becoming managers of the family and dying subsequently. It is of course conceivable that while yet the eldest brother is the manager of the family the younger brothers may die and the family will pay no taxes on their deaths. But it is not a natural or normal course of events and if the father and the four sons succeeded to the management and then died the family would by that time have paid the tax on the family property five times. To avoid this result my suggestion is that each of the four brothers should be treated as entitled to four-fourths and on the death of each or any one of them tax should be paid on only one-fourth of the estate, so that on the death of these five persons the family would have paid not five times but only twice the amount of the tax payable on the full value of the estate. During the lifetime of any of these four sons the death of no descendant would involve the payment of any tax. This illustration would make my suggestion sufficiently intelligible if I expressed it thus: Succession duty will be payable on the death of a member of a joint Hindu family who has no ascendant alive and on the value of the share of the family property to which he or his branch was entitled at his death.

As for the scale of taxation I consider that it would be felt a great hardship if more than 5 per cent were to be charged except in the case of big estates and the succession of remote relations. In the case of heirs falling within the limits of natural affection, the tax should be levied on the

scale to be mentioned presently and in other cases the scale is to be doubled. The scale that I suggest for the heirs who are relations in the first degree is this: No tax is to be levied on estates valued in the manner to be hereafter mentioned at Rs. 5,000 or less. For estates up to Rs. 10,000 tax is to be levied on the excess over the exempted Rs. 5,000 at 2 per cent; on estates over Rs. 10,000, and up to Rs. 50,000, tax should be paid at the amount of tax due on Rs. 10,000 *plus* 3 per cent on the excess; on estates between Rs. 50,000 and Rs. 1,00,000 tax should be paid on the excess over Rs. 50,000 at 4 per cent, and this in addition to the amount of tax on Rs. 50,000; for estates of the value of over Rs. 1,00,000 and up to Rs. 5,00,000, 5 per cent on the excess shall be added to the tax on the Rs. 1,00,000. Between Rs. 5,00,000 and Rs. 10,00,000, 7 per cent. Above Rs. 10,00,000, 10 per cent. To describe it shortly, the duty is to be calculated somewhat in the manner of court-fees except that the percentage payable by way of court-fees decreases as the claim in suit increases in value, while the succession duty increases in percentage as the estate increases in value.

The proposal may be seen at a glance as put below:—

Rs.	Rs.		Rs.
0	5,000	No tax	..
5,000	10,000	2 p. c. on excess over	5,000
10,000	50,000	3 ,,	10,000
50,000	1,00,000	4 ,,	50,000
1,00,000	5,00,000	5 ,,	1,00,000
5,00,000	10,00,000	7 ,,	5,00,000
10,00,000	..	10	on the excess.

Relations in the first degree, in which category I place all those who are descendants or ascendants of the deceased or his collateral relations being descendants of an ancestor not remoter than the grandfather, maternal or paternal, will pay on the above scale. Other relations will pay double the rate.

Even of the relations in the first degree, the sons, grandsons or great-grandsons or the daughters or their sons may be taxed on their shares instead of the tax being fixed on the whole estate and each bearing a proportionate part of it.

Should there be a specified method of valuing properties for the purpose of succession duty, or should it be left for decision in each case? The value of properties varies so much in different localities that one may well take the view that it should be decided in each case having regard to local conditions. On the other hand, the nature and individual temperament of officers might produce considerable inequalities in the estimate of value. It will avoid all personal equation and consequent hardship to have a definite statutorily fixed method of valuing properties for the levy of this duty. There can be no method prescribed for the valuation of movable property. It must be left for valuation in each case, inequalities being inevitable. As to immovable properties I should suggest that ryotwari lands may be valued at 50 times the revenue payable on the lands; permanently-settled estates might be valued at 75 times the permanent assessment or *peshkash*; and inam lands might be valued at 50 times the assessment they would pay if they were ryotwari lands. The assessment which the inam lands would bear if they were ryotwari lands is even now calculated for some purposes. House property may be valued at 12 to 15 times the annual value of the lands. I am strongly in favour of fixing the mode of valuing property in some such rough and ready manner.

Now I shall proceed to give answers to Qs. 137 to 146.

Q. 137.—The question stands answered in the opening paragraph. I am in favour of the levy of duty on succession and inheritance.

Q. 138.—All three principles are worth accepting and have been remembered in the scheme I propose.

Q. 139.—If 'unchanging rates' meant that the rates were not to be graduated, I do not accept its validity. But I take it that it only means that the equal operation of the tax depends upon its continuing unaltered for considerable periods of time and that it therefore ought not to be a temporary tax or a tax at rates varying from year to year.

(2) I agree to this principle as I understand it, and a scheme worked by the Central Government and calculated to levy the tax equally in all cases without allowing any case of succession or inheritance to escape from its equal incidence recognises its validity.

(3) I suggest the collection of the tax by the Central Government. But I recognise the likelihood of richer provinces objecting to this course as disadvantageous to them.

Q. 140.—I have not adopted any of the schedule of rates set out in annexure P and stated to be in force in different countries. I have suggested a schedule of my own.

Q. 141.—I have rejected the third alternative proposed, nor have I accepted either the first or the second. I have suggested what is a combination of the first and the second.

Q. 142.—I see no difficulty in collection. I suggest its collection along with the *peshkash* in estates and by the income-tax authorities in other cases or by the income-tax authorities in all cases.

Q. 143.—The difficulty pointed out may in some degree be true in all countries. But it is more true of India as often a large number of thriftless people depend on one competent earning member. I have taken sufficient account of this consideration in fixing the rate at which the tax should be levied in this country.

Q. 144.—Enforcing payment by merely invalidating transfers is now in force in some places. Even there it is ineffective *by itself*. It is in any case impracticable to apply it to movable property other than stocks and shares.

Q. 145.—The agency for the collection of income-tax may generally be utilised for this purpose.

Q. 146.—I have suggested that exemption should apply to properties of the value of Rs. 5,000 and below.

Mr. Venkatarama Sastri and Sir T. Desikachari gave oral evidence as follows :—

Dr. Paranjpye. Q.—You are in favour of death duties if it is suggested that more sources of revenue should be found out? You consider that inheritance and succession duties are legitimate sources of taxation?

Sir T. Desikachari. A.—My conclusion is: "Considering the subject from every point of view, it appears to me to be not expedient to levy a tax on inheritance and succession except in a qualified way on legacies and testamentary succession".

Mr. Venkatarama Sastri. A.—I think it is legitimate. The incidence is unequal at present as between communities: I may go a little further and say that even with regard to the same community, in some cases they are obliged to take out probate or letters of administration and in other cases they are not obliged to do so. The result is that though there are a number of cases of succession, some pay and some do not. I wish the law to be so devised that every one of these cases will have to pay alike.

Q.—At present practically, only when a man wants to have the probate or the succession certificate and makes use of it he has to pay and not otherwise?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—When you say that all should be made to pay, you mean that everyone should pay but the payment may not be uniform?

A.—I mean that every case ought to be made to pay according to a scheme that may be devised.

Dr. Paranjpye. Q.—And that scheme must be uniform to all communities?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—Apart from the question of rates, don't you think that communities like the Indian Christian community have been treated so far on a different footing from that of the Hindu community, for instance? You could not by a stroke of the pen say now "we are going to have a uniform rate in all cases". Because apart from the occasions on which you levy these duties, are there not other circumstances which require differential treatment?

A.—I do not think that the difference in your personal law is a ground for differential treatment in taxation. At any rate, that is not the view I have taken.

Q.—What I mean is this. In the case of the Hindu joint family there is a difference of opinion as to whether each share should be taxed or, as you say, whether you should tax on the death of the *karta*. As you put it in page 389 of your memorandum, there is one difficulty arising on the death of the *karta*. When a *karta* dies leaving 4 sons and 4 grandsons, although under the Mitakshara Law, which is prevalent in these parts, each man has got a legal right to a share of the ancestral property, yet if the *karta* has not divided the property, it may be quite feasible that because the *karta* is dead, you should levy the death duty on the whole property.

A.—Yes.

Q.—But supposing the *karta* has partitioned among the four sons, then if you levy on the whole property, don't you think it will be an artificial levy, because the property as a whole has ceased to exist?

A.—It is a choice between two alternatives. If they had divided, the *karta* would have taken one-fifth, and the tax would fall only on that one-fifth; and the share of each of the sons would also be paying on his one-fifth.

Q.—My point is this. You know that at present large properties pass either as gift or as settlement in the lifetime of the proprietor without even a small stamp duty being paid. It is very frequently done perhaps with an ordinary stamp duty.

A.—Yes.

Q.—Of course, you could not stop that by law. Only you can make the stamp duty bigger. But suppose the whole ancestral property comes to one lakh of rupees. Under the joint family system, supposing the four grandsons are all grown up, the property will be divided into eight shares.

A.—It will be one-fifth for the grandfather and one-fifth for each of the four sons, and each of the sons will divide his share with his children.

Q.—So, it will have to be divided into five shares. Now suppose the grandfather has divided it among his sons. The property has actually passed out of the hands of the *karta*. That is, the *karta* does not get any benefit of it. The sons get the benefit. He has his one-fifth and when he dies that one-fifth will become ancestral property.

A.—Yes.

Q.—Therefore, on that one-fifth all the shareholders will have to pay.

A.—Yes.

Q.—But I cannot follow why the others should pay for a share of the property which they now possess. I think it would interfere with the Law of Mitakshara. We are here to consider two aspects of the question—the feasibility and the desirability of the death duty. On the question of desirability, probably there may be no two opinions. But on the question of feasibility, there may be many opinions.

A.—According to the law in Bengal, the person who is called the *karta* will be the absolute owner of the property. So far as the Mitakshara provinces are concerned, my idea is this: either you must levy a duty so as to fall on all communities alike, or you must not impose that form of taxation at all. You cannot have it for some communities and exempt others.

Q.—My difficulty is this: In a Mitakshara family where you have the law of primogeniture, it is very easy, because whether the man has ten or fifteen sons, the one sole proprietor can be charged at a certain rate. But where the law of primogeniture does not exist, is it fair on those who succeed under a well-established Hindu Law that, because the *karta* has died the shares which they have been enjoying during the lifetime of the father should also be assessed?

A.—My point is this: The only logical footing that can be taken according to your argument would be that on the death of each, tax his particular share. I consider that there are certain difficulties in the way of applying that form of taxation to the joint family for the reason that the birth of a child and its immediate death would mean taxation of the particular share which that child inherited on its birth, and which passes on its death to the other members. That is the alternative.

Q.—What I was thinking is this: Suppose under the Mitakshara Law a father has four sons and he does not divide the property, though he *could* have done so.

A.—If he had divided, then he would be in the same position as a Christian. He is the sole owner of the property and there is no difficulty.

Q.—Under the Mitakshara Law, would it be possible to make the differentiation in the case where there has been no division in the lifetime of the father? You say that theoretically there are five shares. Let us not consider the grandsons now. Theoretically, each of the sons has got one-fifth share. Suppose the father dies. Now since the *karta* dies without partitioning, you can impose your death duty on the whole estate. In a case where the partition has taken place and sons have separated from the father and have been enjoying their respective shares in the property, why should you levy the duty on the whole estate?

A.—You do want taxation on the joint family. Then there are two or three possible alternatives. One is to tax every death on the particular share which the deceased person possessed at the moment in the joint family. But I think that would involve a harassing imposition of a tax which might have to be paid every year in a typical joint family.

Q.—Suppose there is a safeguard in the case of minors and infants.

Sir Percy Thompson. Q.—Would it be feasible not to charge on the death of infants on the ground that the infant is not entitled to demand partition?

Sir T. Desikachari. A.—It will be entitled to demand partition in certain cases.

Mr. Venkatarama Sastri. A.—If the theory of taxation is that the share passing on death should be taxed, then that child does pass a certain share. But I agree that safeguards could be devised.

The Maharajadhiraja Bahadur of Burdwan. Q.—On page 389 you say "Either this mode of fixing the tax must be abandoned as unsuitable, or it must be laid down that the death of no member of the joint family who is not an adult or who is not above a certain age at death should involve the payment of the tax, except when he happens to be the sole owner of the property." Suppose this suggestion of yours were accepted in some shape or other, then would not the alternative which we have been just discussing be possible?

A.—Yes.

Q.—That is, taking the duty at the death of each individual?

A.—Yes; you can limit it to the share of the deceased.

Q.—So do you think that that would be more palatable to the Hindu joint family than the other two alternatives which you have in your mind?

A.—I cannot say whether it will be more palatable or not.

Q.—Being a Hindu myself, I have also got to consider the question from the aspect of a Hindu. Therefore, we have also to find out what would be the kind of death duty which would be least objectionable to the joint Hindu family.

A.—I do not think there would be any great objection in the ultimate proposal that I have made.

Q.—I want to make my illustration quite clear. Theoretically, each man had one-fifth share, because there would be no actual partition. Under the Mitakshara Law, you would levy the death duty on the whole estate?

A.—We are trying to legislate.

Q.—What I have in my mind is this. Let us suppose the son has quarrelled with his father and there is only one son, and during the lifetime of the father there was a partition. Then the property becomes half and half. Supposing the property is worth one lakh of rupees, when the father dies his property is worth only fifty thousand rupees. I ask you whether you will be justified in levying a death duty on the value of one lakh of rupees or fifty thousand rupees?

A.—I do not think it is quite unjustifiable. It is a question of choice between two alternative modes.

The President. Q.—Would either of these proposals be more likely than the other lead to the break-up of Hindu joint families by forcing partitions?

A.—I don't think so.

Q.—May I make my case more clear? Supposing you have a graduated scale of duty, your duty would become more heavy on large estates. Your second alternative is to tax the whole property. Therefore, the levy would be higher than under the first proposal. Do you think the second alternative would not induce people to break up the family?

A.—There are other considerations which will keep the family together.

Q.—We have been told by some of the witnesses that this tax would sound the death-knell of the Hindu joint family system.

A.—I think each one expresses one's own views.

Sir Percy Thompson. Q.—The idea of a death duty is to levy a duty on the property passing on the death of a person. Supposing you have a joint Hindu family with assets of Rs. 1,00,000 and assume that there is the father and one son. The father dies; what is the value of the property passing? Surely it is what the father's interest would sell for subject to the liability of the son's claim. Therefore, would not the value of the property passing be Rs. 50,000?

A.—Yes.

Q.—Therefore, before departing from the principle of charging on the value passing on the death of a person, strong reasons are necessary. Are there any? If you make a restriction which is being suggested by the Maharajadhiraja that you ought not to charge on the death of minors, the number of deaths is certainly not going to be great.

A.—It obviates some of the difficulties that I tried to get rid of.

Q.—Is it not quite fair?

A.—Yes, my idea is both these methods would work finally, so far as the joint family is concerned, in exactly the same fashion.

The President. Q.—When Sir Percy Thompson was referring to the second alternative, he meant the second alternative in the paper, is it not?

A.—I understood what he meant.

Dr. Paranjpye. Q.—I go further. In England death duties involve succession duty, because ordinarily there is no succession except at death. In European countries death duty and succession duty are practically identical. On the other hand, in the Hindu Law, death and succession are not identical. Property passes at birth also. On the other hand, if we restrict ourselves to a duty at death only, that will not be exactly on a par with the duties levied in Europe. While in the case of Christians death duties would be the same as in other foreign countries, in the case of Hindus, it would not be so.

A.—I do not know that. Perhaps you are looking at it too logically. I think duties at birth cannot be contemplated.

Q.—I am not contemplating that. I am really in favour of your alternative.

A.—As far as I am concerned, I am not very particular which of the alternatives is taken. I do not want any harassing duty on the death of each child.

Sir Percy Thompson. Q.—There is a logical reason apart from the administrative difficulty in not charging upon the birth of the child. The duty is paid when everybody can afford to pay. A child is born and takes part of the property belonging to his father. Surely the father can least afford to pay when his pocket is affected. The whole merit of the tax is that it is taken on a windfall.

A.—I am not dealing with the case of taxation on the birth of a child, but on the death of the child.

Q.—The ground for exemption from death duty on the death of the child is substantially that he has not got a right to demand a share for himself.

A.—The question is has he not taken the property; and does it not pass on his death. You must agree that the child since it is born has taken a share of the family property and the family again gains on his death.

Whatever the reasons may be that we give for exempting that case, I take it, on the whole, everyone is agreed, that there is a case for exemption. You must exempt on one ground or another.

The President to Sir T. Desikachari. Q.—May we know generally your reasons for limiting this duty?

Sir T. Desikachari. A.—If any tax be imposed, the exemptions that have to be necessarily made should not be so great as to induce the feeling that one portion is taxed and another portion is exempted. That is what I have stated. I, therefore, want to impose the probate duty only on wills not deposited nor registered.

Q.—Would not that be unequal to tax only people leaving wills?

A.—If there be a will and testamentary succession the person gets the property by the will of the testator. He did not expect to get it. Practically it was given to him by the testator. There is no reason why he should grumble if he has to pay a probate duty.

Q.—You won't exempt the present communities that pay?

A.—I won't: I am not saying anything new. The Indian Christians have been exempted from the necessity of obtaining letters of administration for the whole estate. They have by a recent Act been enabled to take only succession certificates for the purpose of realizing their debts. It was pointedly mentioned before the Civil Justice Committee that Europeans and Anglo-Indians are compelled to pay the tax. They are not Hindus nor converts to Christianity, and therefore they have been paying the tax. My own view is that in the joint Hindu family there is no succession. Unless there is a succession, there is no question of death duty. In South Kanara and Malabar, there is no division of property at all. They cannot understand anything like a duty on succession. In South Kanara and in Malabar, and also in Mitakshara joint Hindu families, it appears to me to be going against the long-established tradition. By introducing this, you will be confusing and upsetting the Hindu Law which has been respected so long by the British Government.

The President. Q.—I understood the Hon'ble the Advocate-General to say that taxation need not affect the personal law.

A.—He was assuming there was succession when there is not. As pointed out by the Maharajadhiraja Bahadur, there would be a certain amount of interference with our personal laws. I say it would lead to the breaking up of the tradition which has been observed by the British Government ever since they came here.

Q.—They are quite separate—the law of succession and taxation of property passing on death.

The Maharajadhiraja Bahadur of Burdwan.—He contends that, in this case which he has mentioned, the property does not pass on death.

A.—If a house belongs to a father and a son, the father is as much entitled to it as the son. Each is the owner of the whole and part of the property to which he is entitled, and neither of them can predicate any portion as his.

Q.—He has a beneficial interest?

A.—As I understand Hindu Law, he has no beneficial interest such as is connoted by the term in any other legal system.

Mr. Venkatarama Sastri.—Under the English Law there are cases where the property passes by survivorship. Such cases under the Finance Act are treated as succession for taxation purposes.

Sir T. Desikachari.—There is another anomaly. A Hindu need not obtain letters of administration, yet if he wants to get Government promissory notes or anything else of that nature under a will he has to obtain letters of administration or probate.

The President. Q.—My point for the time being is this. A man dies under the present conditions in possession of the joint family property, that share is ascertainable and liable to probate?

A.—It may be ascertainable by partition or by agreement and not till then.

Mr. Venkatarama Sastri.—The executor does not take joint family share, but when he is called on to pay probate duty he pays not only on the property passing by will but also on the property which is passing by survivorship.

Sir Percy Thompson. Q.—It is not necessary to show succession. There is a valuable interest in the property and it goes to somebody. I do not care who the man is. The value of the property is not lost.

Sir T. Desikachari.—It does not go anywhere. The property was already there and the man was enjoying it.

Mr. Venkatarama Sastri.—That is connected with the underlying metaphysics of the Hindu joint family system.

The President. Q.—Would the increase of taxation on property passing at death tend to increase the number of partitions? Would it be necessary to accompany it by taxation of partitions?

A.—It did not strike me so when I read it first. Divided or undivided, that is the share which is going to be taxed.

Sir Percy Thompson. Q.—If you tax the share, it does not matter?

A.—Surely so.

Dr. Paranjpye. Q.—In any scheme of death duties, you will have to obviously make some provision with regard to gifts?

A.—I think three years is the rule in England.

Q.—Would not a partition within the same period be practically a gift?

A.—I do not think so.

Q.—You say, "Succession duty will be payable on the death of a member of a joint Hindu family who has no ascendant alive, and on the value of the share of the family property to which he or his branch was entitled at his death".

A.—Yes. I think one of the two things I was quite willing to have, and in each case I calculated what each system would work out to so far as the joint families were concerned. I thought the families would not lose anything on either alternative though I preferred one of them. If this Committee thinks that it is more logical to adopt the share of the man as the basis for taxation, exempting the younger members of the family up to 18 years, I have no objection.

Dr. Paranjpye. Q.—I will put to you just a concrete case, the case of a Hindu and the case of a European. There is one Hindu and one European; and neither has any son at present. Each has inherited one lakh of rupees from his ancestors. After each has been in possession, each gets a son. Well, the Hindu dies; according to this system of taxation, the share of the property will be chargeable with a duty on fifty thousand rupees. On the other hand, the European will be charged on one lakh of rupees.

A.—I think if the European had lost 50,000 rupees before his death, he would be charged only on 50,000 rupees. The birth of a son to the Hindu is the same as a loss of a certain share.

Q.—In this case two people inherited exactly the same amount of property; each of them gets a son, but after all a Hindu on the death of his father will be chargeable on a property of 50,000 rupees, whereas the European on 1,00,000 rupees. I consider that this is a great inequality between the two.

A.—There is a compensation. The Hindu son, if he dies before his father, pays a tax on Rs. 50,000 which the European's son does not pay at all.

Q.—Take the ordinary case; the son will die 30 years after the death of the father.

A.—I am considering the case of the son dying before the death of the father. The Hindu does pay a tax.

Q.—Take the ordinary case over a generation of 30 years. In each case at every interval of 30 years the Hindu family will pay on 50,000 rupees, whereas a European family will pay on 1,00,000 rupees?

Mr. Venkatarama Sastri. A.—No system of taxation can be quite logical.

Sir Percy Thompson. Q.—If an Englishman did voluntarily what the Hindu does by law, he would be in the same position as the Hindu. Where is the inequality?

Dr. Paranjpye.—No partition could be stopped. If a Hindu consciously and deliberately leaves the property, they will be on the same level.

Mr. Venkatarama Sastri. A.—In the case of a Hindu 50,000 rupees is lost on the birth of the son; it is not lost in the case of a European.

The President. Q.—You say that the percentage payable by way of court-fees decreases as the claim in suit increases in value, while the succession duty increases in percentage as the estate increases in value. Is that right? Another judicial authority has put it to us that it ought to be the other way: the bigger the value of the suit, the higher should be the rate. He would graduate the court-fees just as you would graduate your succession duty. I wanted to ask you whether you agree with him.

A.—I think not. If a man has a large estate to recover, should he be made to pay heavy duty when not in possession of the property before he can bring the matter to the court? That is what it comes to. You know the judicial administration already pays its way and leaves a balance.

The President addressing Sir T. Desikachari. Q.—Did you find this anywhere during the course of your tour with the Civil Justice Committee?

A.—Everywhere except perhaps in Burma the court-fees collected were not commensurate with the expense of obtaining probate or letters of administration and in Calcutta I found that there was a substantial sum left over. Even supposing you take into account pensions, buildings and certain other things connected with the judicial administration as part of the cost of that service, still a substantial sum was left over for general purposes.

Dr. Paranjpye. Q.—Did you make any allowance for the time taken by the judge in administering criminal justice?

A.—We were not given any particular terms of reference with regard to such matters. But witness after witness said that the courts were paying much more than was needed for the service rendered by them.

The President. Q.—You did not make any analysis of the figures?

A.—I made a rough analysis. My idea was that in most of the provinces after paying for both criminal and civil justice, there was a substantial sum left over which was being utilized for other purposes.

Q.—Did your calculation include probate fees?

A.—Yes. The sum collected on succession duty and probate duty has to be included in the calculation because they are both collected as fees under the Court-fees Act. As I pointed out very little work is done by the court which grants probate or letters of administration.

Q.—The stamp duty on a bill of entry has nothing to do with court-fees.

A.—Anyhow you collect it not as a tax, but as a fee for the services rendered.

Q.—Should we not analyse and eliminate taxes on transactions—court-fees, stamps, bills of entry, etc.?

A.—I have not the slightest objection to have it done, but the difference in the net result is negligible. My idea is that court-fees are collected out of all proportion to the services rendered by our courts.

Mr. Venkatarama Sastri.—On that particular question one reason occurs in the case of succession. If a man gets property by death, you get a share in increasing proportions as the property goes up. In the case of court-fees he is suing for the property which he may or may not get. You are giving him simply an opportunity to place the matter before the court.

Q.—Would you take any extra court-fees if he succeeds?

A.—In some cases it is allowed. A pauper sues without any court-fees and pays after success. But I do not know if it is possible to make any distinction between the case in which he succeeds and in which he does not succeed. I am suggesting the reason why in the case of succession duty the tax increases when the property goes up in amount.

Sir T. Desikachari.—You are putting a question to the Hon'ble Advocate-General as to the amount of court-fees to be paid in proportion to the value of the suit. I find that the work done by the court in a money suit

concerning two lakhs of rupees is nothing at all compared with the work done in an injunction suit valued at fifty rupees. There is a great deal of anomaly in that matter. I do not think it is proper to have the court-fee paid upon the valuation of the suit fixed at the plaintiff's pleasure. It must be on the nature of the suit, and not on the value of the suit as fixed by him or by any arbitrary rule.

The President. Q.—Is a fee levied for such suits in the High Court?

Mr. Venkatarama Sastri.—The High Court has a system of sitting fees on the Original Side.

Sir T. Desikachari. A.—In Mysore I think there was a scheme to collect court-fees in the first instance for the whole suit and to remit a portion of it if the suit was not contested. With reference to injunction suits which relate to property of high value, we should not allow the plaintiff to value his own suit, although it may be necessary to value the property itself in order to get possession of the property.

Mr. Venkatarama Sastri. A.—I think there is provision regarding the making of rules for the valuation of such cases under the Suits Valuation Act. The power has never been exercised by Government.

Q.—We cannot compel the High Court to do that.

Sir T. Desikachari. A.—The Government and the High Court have to make rules under the Suits Valuation Act in order to make court-fees approximate as far as possible to the value of suits both for purposes of court-fees and jurisdiction, but nothing substantial has been done.

Q.—That Act is practically a dead letter?

A.—Not exactly: some rules were framed but they are crude. For all purposes practically valuation for court-fees is the valuation for purposes of jurisdiction. So, if I institute a suit for injunction with reference to property worth three lakhs of rupees and ask for an injunction valuing the claim at Rs. 3,000, that suit will go to the District Munsif whose jurisdiction is up to Rs. 3,000 and not before the District Judge. The court-fee is paid on Rs. 3,000 and not on three lakhs. There are many anomalies of this kind which have to be corrected if you want to levy your court-fees on a rational basis for services rendered.

Q.—Would it be possible for both of you to give us a few notes on detailed items of the schedules: the whole thing wants recasting.

A.—We will try.

Q.—Would you please explain your statement, "In trade accounts maintained in the mofussil as they are now and are bound to be for a long time to come, acknowledgments of probative value have to be accepted in evidence by a straining of the provisions of the Stamp Act"?

Sir T. Desikachari. A.—Let us take a busy municipal area where you find documents signed without any stamp in effect promising to pay a substantial sum of money. What courts now do is to treat them as not bonds or as promissory notes, but as acknowledgments or as agreements not otherwise provided for, and collect eleven times the stamp duty payable on that basis; it so happens that these acknowledgments or undertakings to pay are really chargeable with Rs. 50, Rs. 60 or even Rs. 100 as stamp duty and therefore eleven times that would be Rs. 1,100. That sort of anomaly exists and courts, in order not to harass litigants and for rendering substantial justice, do not shut out valuable evidence and often construe instruments which are not acknowledgments as acknowledgments or agreements not otherwise provided for.

Q.—The reason for that is that the duty on a bond is too high.

A.—The penalty is too high.

Sir Percy Thompson. Q.—Is the penalty ten times the duty?

A.—Yes.

The President. Q.—In the case of one-anna stamp, there is no penalty at all; you must prosecute.

A.—But supposing there are a large number of acknowledgments which may require one anna, even then the courts are inclined to admit them in evidence in order to do justice.

Mr. Venkatarama Sastri.—As unstamped acknowledgments are inadmissible, courts treat them as agreements and levy penalties on that footing in order to do substantial justice.

Sir T. Desikachari. A.—The Civil Justice Committee have recommended writing and registration in many transactions which are not covered by the existing law, but under the existing law, transactions not covered by the Transfer of Property Act need not be in writing and, therefore, need not be registered.

Q.—Practically, that imposes a duty in dealing with transactions not hitherto requiring registration in such a way as not to penalize them.

A.—You may tax it in a particular manner, but you ought not to use the ordinary Stamp Law for the purpose of taxing documents which are required to be in writing and registered for the purpose of effecting a judicial reform.

Q.—Does it not mean that we have to suggest additions to the schedule?

A.—Yes. With a differential rate between documents which have not been compelled to be in writing hitherto and those which are to be compelled to be in writing heretofore.

Q.—Isn't that going to be difficult?

A.—No. There are hardly half a dozen sections in the whole of the Statute Law requiring written instruments. If there is a writing it must be registered. What requires writing now comprises but a very few transactions.

Mr. Venkatarama Sastri.—That has a bearing only on the civil delays: they want transactions in writing in order to save time in the trial of suits

Q.—If their recommendations are carried out and the Stamp Law is not modified simultaneously, there would be a great hardship.

A.—Yes. Things which escape stamp duty now would be heavily taxed.

Q.—The point is that the duty of having it in writing is rather severe.

A.—Yes; but it is absolutely necessary to impose it, if you are not going to increase the number of law courts and if you desire to put an end to the law's delays and present perjured testimony.

Q.—Actually a few years ago the fee for registration of a will was increased as a measure of taxation on dispositions: your recommendation is that every possible facility should be given to people to register wills.

A.—I want to have all wills published and registered instead of having oral testimony. If they are deposited before the Registrar, the same duty should not be charged as a probate. If they are actually registered, you may treat them in a differential manner, and if the will comes before the court, without deposit or registration, levy the usual probate duty.

Sir K. V. REDDI, Kt., M.L.C., Madras, was next examined.

Written memorandum of Sir K. V. Reddi.

Q. 1.—The statistics at present available are neither adequate nor reliable. They are inadequate, because they do not give full information and they nowhere approach the fulness which statistics in other countries have reached. A reference to paragraph 236 of the Indian Cotton Committee's Report will show that there are as many as six agencies which collect statistics in the United States of America. There is what is known as the Crop Reporting Board, then the Bureau of Crop Estimates; there is an agency known as State Field Agents; also the voluntary Crop Reporters, Crop Specialists and Crop Correspondents. In India we have no such agencies, and such agency as we have is ill-paid and ill-equipped, having no conception of the advantage of these statistics. As Minister of Agriculture I had considerable difficulty in inducing the Madras Legislative Council to agree to the appointment of a Statistical Assistant to the Director of Agriculture. That the present statistics are unreliable is clear from Annexure A itself. My own personal experience of the manner in which the crop estimates are prepared by the *karnams* leaves no doubt in my mind that these statistics are absolutely unreliable.

Q. 2.—To the list of estimates mentioned in Annexure B, I may perhaps add an estimate of the agricultural wealth of the Madras Presidency published by the Department of Agriculture, Madras. It was prepared either by Mr. Sampson or by one of his successors. If the time at my disposal were sufficient, I could have unearthed my own copy of it, but a reference to the Director of Agirculture may result in a supply of a copy to this Committee. I have no criticisms to offer on the several estimates except to observe that almost everyone of them is far from truth, and that they are the result mostly of guess work, or at least based upon incorrect data and that they are wrong statistics.

Q. 3.—Our income-tax statistics are inadequate and even misleading. We have no statistics for death duties at all. Further, our country is an agricultural country, and estimates of national income can be prepared only from a different and more exhaustive kind of statistics.

Q. 4.—It is difficult to suggest improvements without involving legislation, or large expense. Without legislation there will be no obligation on landholders and cultivators to give correct information. Without expense no statistics can be collected. If omelettes are to be made, eggs have to be broken. The only suggestion that I can make is, that if and when we find a co-operative society in every village, such society alone can furnish full and correct statistics of its village. Until that time is reached I have no hope of securing adequate and reliable statistics.

Q. 6.—I have no objection for undertaking all-India legislation on the lines of the Bombay Bill. But if the object of such legislation is to secure statistics to form a basis for estimating the national income or national wealth, I must say that the legislation will be infructuous. Our national wealth mainly consists in land, and our national income is chiefly from its yield. The three classes of information mentioned in Q. 6 do not cover the kind of income that I am speaking of. I therefore doubt the utility of any such legislation, though no doubt, within a limited sphere and to a certain extent, the proposed statistics will have their own uses. To a non-industrial province like Madras, the suggested legislation will not be of much use. I cannot therefore advocate the undertaking of all-India legislation of such a limited nature.

Q. 8.—I do not attach any importance to the enquiries mentioned in Annexure C so far at least as Madras is concerned. If I may say so, with great respect to those concerned, the "Settlement Reports" are one sided, "Rural Economics" is but a name, "Some South Indian Villages" is unreliable and "The Economics of a Coimbatore village" is a camouflage, though my recollection of this last article is somewhat hazy. These records are absolutely inadequate and certainly not reliable to form the basis of an estimate of the incidence of taxation. A regular economic survey alone, which can be conducted only after co-operative societies are established in each village and only after they take root can supply full and reliable information necessary for such purposes. At present the people will be unwilling to give out the details of their family budgets, their debt or their income. They naturally suspect that their taxes will be raised. When a co-operative society, say a credit society, establishes itself well in a village, the important members thereof will know the ins and outs of almost every family in the village. They will know the advantage of statistics. They will co-operate with the Government. When that stage is reached, it will be easy to conduct an economic survey with the accuracy almost of the population census. Any earlier attempt will be doomed to failure and will only end in enormous cost.

Q. 10.—Only about 5 lakhs of revenue is derived in the Madras Presidency from sales of waste lands. This amount is bound to be reduced as years advance. The waste lands are generally given on *darkhast* for nothing no doubt on condition of paying the annual assessment. Trees existing on the lands so granted are valued and the value collected but this does not come to much. As regards penalties, I know only the case of penal water-rate charged against persons who cultivate their dry lands with Government water without obtaining previous permission thereto. Occasionally these penal assessments reach a high figure, in the Godavari and Kistna deltas where sometimes ten times the usual rate is charged. But I am not enamoured of the distinction between tax revenues and non-tax revenues. Very often it is a distinction without a difference and from the bearer's point of them it is absolutely immaterial.

Q. 13.—A bare return on the capital invested should be the endeavour. The element of tax will appear if a monopoly profit is realised.

Q. 14.—Theoretically speaking, revenue from all the classes mentioned herein is generally treated as non-tax revenue. A to D are classed as revenue from Government undertakings. Cinchona perhaps will be treated as revenue from a social service rather than from a public undertaking. I have already submitted that I do not find much difference between tax revenue and non-tax revenue. I believe Hadley treats railway rates as taxation but I am not quite sure of this. At any rate where the railway charges exceed a certain rate that could cover interest, depreciation and the rest of it plus a reasonable profit it would undoubtedly be in the nature of taxation.

Q. 15.—The charge for water supplied in the two great deltas of Godavari and Kistna is not only adequate but more than that. The great anicuts of Godavari and Kistna were originally constructed when the rate of interest was 3 or 4 per cent. To-day we are paying not less than 20 per cent. In the beginning the rate of water cess was only Rs. 2-8-0 per acre and the area irrigated was very small. The rate was increased from Rs. 2-8-0 to Rs. 3 and then to Rs. 4 and finally to Rs. 5 the rate prevailing at present. And the area under irrigation has gone on continually increasing with the result that to-day the investment on these two great works of irrigation is, as stated above, fetching a return of not less than 20 per cent. The rates were originally fixed on the simple principle of getting the interest on the investment providing for depreciation, etc. Later on, considerations of revenue induced the increase in the rates. Of the five plans suggested in the question, I certainly prefer the first alone. The last will be contrary to public policy. The second and fourth introduce an element of commerce. The third is perhaps justifiable on the principle of betterment taxes but all the last four plans ignore the principle that the main purpose of irrigation is increased production and national wealth. Irrigation works should be undertaken as a matter of duty of the State and when it is remembered that nationalisation of water, more than even nationalisation of land, has obtained in this country from time immemorial, commercial calculations and similar considerations shall have no place there.

Q. 16.—The above answer meets this question. I can understand that if a certain irrigation work can be undertaken only with a rate of water cess far above the existing rates, such a higher rate can be imposed upon lands newly brought under cultivation with the aid of the new irrigation work. Such a principle is recognised in the Madras Irrigation Bill. A lump sum contribution can be taken only if the rates to be imposed is intended to meet the interest, etc., upon the amount which the Government may have to invest in addition to the lump sum contribution. No betterment tax can reasonably be imposed where the cost of betterment is contributed by the people concerned and not by the Government.

Q. 18.—Court dues are no doubt payments for services rendered and are non-tax revenues like the earnings of the railways, tramways, telegraphs, etc. But as I have said often I make no difference between such revenues and revenues derived from taxes strictly so called. In one sense all revenues are borne by the people and as such should be treated as taxes. The distinction is only useful to students of the science of taxation. To the practical financier and the tax-payer, they are all burdens upon the latter and revenues for the former.

Q. 21.—I do not also make any distinction between direct and indirect taxation, or between voluntary or optional, and compulsory taxation. The very diversity of opinion disclosed in Annexure D is my reason for that position.

Q. 22.—This question does not arise in the view I took above.

Q. 23.—I do not agree.

Q. 24.—In the same way as I regarded above, in a country like India where the taxation is already unbearable not because it is high but because the country is poor, every new tax is hated. Perhaps even in rich countries it is so. It is much more so in a country like India. It is doubly so when it is remembered that the tax gatherers and leviers are not directly responsible to the people. I am aware that the growing needs becoming complex every day, with the advancement of civilization and contact with foreign nations, necessarily require new sources of revenue. But in this country situated as we are, I will not certainly advise the imposition of any new tax, unless provincial autonomy is granted, and until some degree of responsible government is introduced into the Government of India. After that is done new taxes can be raised. Even then, it is a question of choosing the lesser evil. Every tax is burden-

some and should be imposed only when it is unavoidable. In doing so, questions of equality, ability, certainty, elasticity, economy, and convenience of collection and other canons described in text books on taxation can be attended to. I am making these observations here because it may save me a lot of time and space, though they do not arise directly in answer to this question.

Qs. 26 to 32.—I have already answered a portion of these questions in my answer to Q. 24. By the maxims enunciated by Adam Smith, I suppose, are meant—(1) equality, (2) certainty, (3) convenience of time of payment, and (4) economy of collection. The other qualities of (5) elasticity, (6) sufficiency, and (7) productivity—are mentioned by subsequent writers such as Bastable. Findlay Shirras in his "Science of Public Finance" has stated them in the modern form in Chapters XIII and XIV of his book. That is the latest book that I have come across. Now, I agree that every member of the community should pay some tax, the only condition being that he should be able to pay. That is the only exemption I would make, but it need not matter if he pays in an indirect form. The only consideration should be—does not every member contribute his share towards the expenses of the State?—the benefit of whose laws and institutions and the protection of whose arms, he is enjoying. I also agree that taxation is a proper accompaniment of representation. But the converse also must be upheld. While I will not give a vote to one who does not pay any tax direct or indirect, I will not pay any tax unless I am given the right of representation. I do not mind whether the tax is direct or indirect. I do not approve of poll tax or capitation tax. These are ancient taxes now out of date. To the Indian mind they carry with them some idea of oppression and even degradation. The levy of this tax does not conform to the one test that I maintain, namely, ability to pay. These taxes, are also subject to the objections of inconvenience, of unproductiveness, and expense of collection. At any rate, these taxes are certainly more objectionable than the salt tax and the customs duties on cotton, kerosene, or matches. Excise duties on cotton are most objectionable. That is because they stifle growing industries in this country. Again, when it is a case of choice between two taxes, the *pros* and *cons* will have to be weighed from every standpoint and the balance of advantage will have to decide the issue.

Qs. 33 to 47.—If a substitute is required for an existing tax which is to be abolished, I could advocate an increase in the rates of income-tax, and in doing so, I would apply the increase to all classes now subject to income-tax. I will not show any favour to incomes derived from productive enterprises. But I will certainly agree to enhanced rates on unearned incomes. It is of course not practicable to make allowances for the number of persons supported out of particular incomes. But an average family in India may be treated as consisting of five members, and allowance can be made on that basis. I consider that the Indian super-tax on companies in its present form is justifiable. I am in favour of the exemption of incomes derived from agriculture from the operation of the income-tax, so far as the actual earnings of the farmer or the cultivating tenant are concerned. In the ryotwari areas, I would prefer taxation of agricultural incomes if permanent settlement is introduced. If that is not to be, the farmer's earnings should not bear an income-tax. The case of the absentee landlord however is different. I think he ought to pay income-tax in addition to the land tax, though the rate may be somewhat lower than that payable on other incomes. The danger of land passing into the hands of the professional classes and money lenders mostly resident in towns is growing day by day. The proverbial chronic indebtedness of the ryot is at once the cause and result of the loss of land. If only to prevent this, I would compel the absentee landlord to pay income-tax on the income from his lands. I do not want land to pass into the hands of absentee landlords, and, to achieve that end also, I would resort to this income-tax. I want his spare capital for the development of industries, and it is essential that a check should be placed on his inordinate desire to invest his earnings in land which he can never himself cultivate. Absentee landlordism is in some measure accountable for shortage in production. On that ground also, I object to his purchase of land. I cannot say whether the computation of Shah and Khambata is any way nearer the truth. Without accurate statistics of the national agricultural income, any estimate must necessarily be conjectural. The Indian limit of Rs. 2,000 below which an income is not liable to income-tax is not, I am afraid, based mainly upon any considerations of allowance towards the subsistence of

the members of the family of the maker of the income. It is also due to the fact that those whose incomes are below Rs. 2,000 cannot keep regular accounts, and therefore are not in a position to prove their incomes with any amount of accuracy. The elements of certainty and productivity may have played their part in fixing this limit. Ability to pay must no doubt have been one of the considerations, but how far allowance for subsistance was taken into account is more than I can tell. The case of land revenue differs from this income-tax. It is easy of ascertainment, and easy of collection. I do not think that the example of land revenue should be invoked to reduce the present limit of taxable incomes. I do not think that income-tax can be said to be a tax on honesty. I do not know how far matters are improved by the growth of accountancy profession or by the exercise of more efficient control. India is not as far advanced as England or France, and I will not advocate the prescription of any special form of account by tax-payers. I cannot agree to the publication of the particulars of private incomes in this country. I am not satisfied with the present arrangements in regard to assessments on the previous year's income. In the year 1923-24 I was Minister in the Government of Madras and had drawn a salary of about Rs. 30,000, but I was charged income-tax on an imaginary income of Rs. 50,000 on the basis of the previous year's income.

Q. 48.—The observation contained in the quotations are all true in their own way. The rule that necessities should not be taxed is quite a good rule, but is only one of the many rules that guide taxation. As I have said above, when the question is between two different taxes, it can be answered only by a consideration of the advantages and disadvantages of each and by seeing on which side the balance of advantage lies. In fact, even this may not suffice. By the practical financier, even political considerations may have to be thrown into the scales, and such considerations may sometimes turn the scales. Definite statements and enunciations of principles are quite all right and excellent in the pages of a text-book. But other considerations might outweigh these principles in practical politics.

Q. 49.—I cannot deal with each of the 34 or 35 articles mentioned in this question. I object to excise duties of all kinds excepting on articles mentioned in my answer to Q. 82. My objection is all the more strong in cases where Indian industries had to struggle against the more efficient foreign industries.

Q. 50.—I cannot say anything definite about the graduation being practicable. It depends upon the particular articles chosen for progressive taxation. But there is justice and reason in this progressive principle. Its application ought to be practicable in the case of select articles. For instance, why should not high-class drinks be taxed at a higher rate than low-class ones? Why should not a 200s. fine cloth be taxed at a higher rate than a cloth of 40s?

Q. 51.—I have no objection to the statement quoted in this question. But I will lay stress upon the fixed necessity mentioned in it. If there is no other alternative I will certainly accept a tax on salt, but if a substitute can be found which possesses all the virtues attributed to salt, and the tax on which does not fall upon the poorer classes or upon necessities, I will certainly prefer such an article to salt.

Q. 52.—If the assumption is right, the conclusion is perhaps indisputable. But I dispute the accuracy of the assumption itself.

Q. 56.—It would not only be proper but absolutely necessary to impose a protective duty on imported salt, making it almost impossible for foreign salt to be imported into this country. It is said that all that is required for the production of salt is plentiful sea water and a bountiful sun, with both of which God has blessed this country abundantly. We have the longest sea coast and the sun shines brighter in India than in any other salt producing country. The machinery required for refining salt is of the simplest nature. Why then should salt be imported from Liverpool or even from Aden? Facilities would seem to have been afforded for the importation of salt into India. It is said that it costs much more to send one maund of salt from Madras to Calcutta than what it costs an English merchant, to send the same quantity of Liverpool salt from Liverpool to Calcutta. It is these facilities that are responsible for this importation. The Bengal consumer will not suffer in the long run, and if only facilities of easy conveyance are afforded, Indian salt can be sold in Bengal as

cheap and as refined as the Liverpool salt. Further the Bengali is undoubtedly patriotic enough to bear ungrudgingly the additional burden for a short time.

Q. 61.—I do anticipate the introduction of a policy leading to total prohibition in the near future, in particular areas to begin with; Provincial Legislative Councils will put pressure on ministers who will be compelled to make a beginning in the introduction of such a policy.

Q. 62.—There will of course be a loss of revenue, but I do not admit that the policy would involve a large expenditure for its enforcement for any length of time. In the beginning, some staff will no doubt be necessary to prevent illicit manufacture. But as time advances, such precautions will be unnecessary. When the manufacture of toddy liquors was prohibited and rum introduced in its place, it was very much apprehended that illicit manufacture of arrack from toddy would be difficult to be stopped. To-day there is no such illicit manufacture at all, except in insignificant quantities, and that perhaps in the interior of forests far removed from civilization. A similar consequence may follow total prohibition. The loss of revenue must of course be recouped by finding fresh sources of revenue. I do not approve of a super-tax on land revenue. But I agree to a provincial surcharge on the income-tax the rate to be determined according to circumstances. A succession duty, a tax on tobacco and an employee tax have my approval. If by totalizator duty is meant a tax on tickets purchased at the races, I have no objection to it, but in our province the revenue from this source may not exceed five or six lakhs. I do not know what is meant by taxation of "futures". I wonder whether it refers to what are known as forward contracts in law or a system of business known in the Bombay market as Aditya System. These forward contracts have proved the ruin of many a family. There is an element of gambling in them and at one time the Bombay High Court refused to enforce these contracts. Later on, however, these transactions were recognised in law and are now enforcible. If a tax on these transactions can be collected from the party benefited, it would perfectly be a just tax. But it is open to the objections—(1) that it is not certain, (2) it is not productive, (3) it is not easy of collection, (4) there is no equality. But it satisfies the condition of ability to pay. In other words, it is an income-tax. While these transactions are very common in Bombay, they are few and far between in Madras. Excepting in the cities of Madras, Bellary, Coimbatore and Madura, I know of no place where these forward contracts are entered into on any appreciable scale. I do not approve of an increase of local fund cess or a transit or terminal tax.

Q. 63.—As an advocate of total prohibition, I need not answer this question. In fact, the observations quoted in this question in a way support my position. Dalton, for instance, admits that the use of alcohol is an evil. He advocates a reduction in consumption and a reduction of the evil he considers to be a "positive good". Will not the complete eradication of the evil be "superlative best", if I may be allowed the expression? Again Jones calls drink a harmful luxury sufficiently undesirable to justify its limitation. I am one of those who hold that it is wholly undesirable to justify its prohibition. According to Jones, the object is not only revenue, but also the deliberate discouragement of use of the article. In my opinion, this is a somewhat inconsistent position. In the first place you make money out of vice. In the second place you are bound to encourage consumption in the interests of your revenue. Maximum revenue and minimum consumption are to a certain extent incompatible.

Q. 78.—The Tariff history of England discloses the advantage of confining tariff to a few articles, instead of imposing duties on all imports. How far such a principle is applicable to India is a matter of some doubt. Nor can we exclude questions of protection altogether in this country. England is a highly advanced industrial country. We are producers of raw material and importers of all kinds of manufactured articles. It is difficult to say how many articles should pay customs duties on our shores.

Q. 82.—Export duties may be levied on raw cotton, lac, oil-cake and fish and other manures. I believe that jute, rice, raw hides and skins and tea already carry an export duty. I am against all other export duties.

Qs. 83 and 84.—Following the recommendations of the Indian Fiscal Commission I prefer specific duties and tariff valuations to *ad valorem* duties wherever possible. But I have no practical experience of the difficulties of our importers.

Q. 87.—I approve of taxing advertisements, auction sales, banking transactions, betting, entertainments, insurance, luxuries and tourists.

Q. 89.—I agree the collection from judicial stamps should not exceed the cost of judicial administration. As they say, justice should not be sold. I do not admit that resort to the law necessarily implies ability to pay. I have known many clients who have borrowed for litigation and many more who are ruined by litigation.

Q. 90.—I do not agree with Hobson.

Q. 93.—Registration fees need not be limited to the cost of Registration including pay of staff, pensions, buildings, etc. A special service providing unimpeachable evidence of the transactions deserves a return which may very reasonably exceed the cost.

Q. 95.—I prefer a more general extension of the entertainments tax.

Q. 96.—A tax is a contribution to the public exchequer without reference to any special benefit. Rent is a return for having enjoyed a special benefit from the use of another's land. It is not professed that this definition is exhaustive or even anywhere near it. I know of the two land systems prevalent in the Madras Presidency, the ryotwari system and the zamindari system. That which the zamindar collects from the tenants is admittedly a rent, that which the Government collect from the ryot is called rent by the bureaucrats and tax by the democrats. The controversy is an age-long one. I do not know if any useful purpose will be served by entering into this controversy now. But I do believe that the British misconception that land revenue in India is rent, is responsible to reduce the prosperity of the ryot and is one of the factors that contributed towards the chronic indebtedness of the ryot. Historically and economically land revenue should be treated as tax alone and for the considerations which weighed with me in accepting that position I would refer not only to the writing of the late Mr. Dutt, but also to the recent book published by Mr. Vakil under the name of "Financial Developments in Modern India", pages 339 to 350.

Q. 97.—I have already stated that the prosperity of the ryot is affected to some extent by the land tax. There are, no doubt, other causes at work. The joint family system with its consequent manifold expenditure without a corresponding increase in the earning capacity, extravagant marriage expenses, ever increasing with the multiplication of members and their pride and vanity, a chronic inherited indebtedness, the law of partition and the consequent fragmentation of holdings, bad seasons, low prices, heavy taxation, rise in the cost of living, love of litigation, illiteracy and consequent ignorance, undue attachment to home and the consequent disinclination to leave it to secure other means of earnings—these and others may be mentioned as the causes.

Q. 98.—Sirdar Gulab Singh's criticism is true to a large extent but is somewhat exaggerated.

Q. 99.—To those who plead for permanent settlement, minor considerations such as those referred to in the question do not appeal. The best way to avoid all injustice is to make a permanent settlement.

Q. 100.—I do not admit the accuracy of the statement of Prof. T. K. Shahani. Rs. 2,000 is no doubt above the subsistence level. But that level differs in different families and it is not practicable for a taxing officer to ascertain the level or to ascertain whether an agriculturalist income exceeds that level. I do not think that further fractionisation will result from exemption from payment of land revenue referred to in the question.

Q. 101.—I do not think that the imposition of a tax on mutations will check fractionisation. I do not approve of such a tax. The root of the evil is in the Law of Partition and equal rights of all the sons of a father to share his properties. Unless perhaps that law is altered and until the Law of Primogeniture is applied, fractionisation will go on. There is a good deal to be said on both sides. Partition, while economically detrimental, is essentially based on equality. There are many who consider that the English law of inheritance is unequal and unjust. The Indian problem is very complicated and it is better it is not mixed up with pure problems of taxation.

Q. 102.—I will not apply the principle enunciated by Dalton to waste land newly brought under irrigation works. It is very likely that Dalton was not thinking of waste lands or of irrigation works. If I am not mistaken he is referring to minerals and mines. Unfortunately I have not got the book

before me. However, I am tempted to ask, if that newly irrigated land is not to become private property, is it proposed that it should be managed by the Government? If so it will lead to great complications. Domain lands are a thing of the past and such State lands as are maintained in France, Italy, Spain or even in Great Britain, fetch very little revenue. If the newly irrigated lands are to be extensive and are retained by Government, numerous problems regarding employment of labour, disposal of produce and facilities for irrigation will arise, and complications of a very difficult nature may have to be faced. If Government can carry on the agricultural industry, why may it not carry on other industries such as spinning and weaving and what will become of such principles as that which enjoins that Government shall not compete with private enterprise?

Q. 106.—I agree to the criteria mentioned in the question.

Q. 107.—The taxes mentioned in schedule II to the Scheduled Taxes Rules framed under section 80A (3) (a) of the Government of India Act give sufficient scope to local bodies. I do not think that the levy of any specified taxes should be made imperative. I cannot think of any further powers of taxation that can be given to local bodies unless it be the power to levy an addition to the State income-tax. Such a power seems to be exercised in France, Belgium and Germany. But I see no immediate need to invest our local bodies with it. Under our Municipal Law a pilgrim tax can be imposed by Municipalities on pilgrims. I do not know whether such a tax is covered by any of the seven items mentioned in the said schedule II, or in fact on the income from slaughter houses, unless "other public conveniences" mentioned in item 11 (e) covers the case. I do not also know whether cesses, such as the education cess or railway cess, are covered by the items of schedule II.

Q. 109.—I am generally in agreement with the objections raised by Armitage Smith against octroi. None of the municipalities with which I am acquainted, levy this tax. These are open to the further objection of being a hindrance to trade, an objection to which great importance is attached by English text-writers. The criticism does not appear to apply to terminal tax, when it is limited to railway journeys. The cost and inconvenience of collection will disappear as also the question of its being a hindrance to trade. Nor can it be said to be levied upon necessaries, nor does it increase the cost of living. The only portion of criticism that is common is as regards the incidence being heavy upon the poor, and the burden of the tax not being distributed in proportion to the benefits gained by local expenditure.

Q. 111.—Tolls are a very important source of revenue, sometimes amounting to several lakhs of rupees. I am aware of a certain movement to abolish these tolls in the District Boards, but even there, it is agreed that there should be a substitute in the shape of a licensing tax on carts. The justification of tolls is in the use of the roads which require to be kept in proper order and maintenance at considerable cost. I see no reason why they should be abolished, either under the Municipalities or under the District Boards. I would fix the minimum limit of distance between one toll gate and another at 16 miles.

Q. 112.—Before I answer the question as to the relative liabilities of the owner and the occupier, I may be permitted to say that local finances have hitherto made an unjue demand on land. The main revenue of District and Taluk boards comes from land in the shape of a cess levied at the rate of, say, one anna in the rupee. When a railway cess was wanted, again it was the land that was made to pay at the rate of 3 pies in the rupee of the Government tax on land. When an education cess had to be imposed it is again 3 pies in the rupee of the land revenue. Numerous classes of people escape payment of local taxes, and the ryot is made to pay the bulk of local taxation. Until recently, professional classes paid no professional tax in local board areas. Though to-day professional tax is collected both by municipalities and by local boards, the aggregate revenue from this source bears a very small proportion to the land cess. Railways, insurance companies, factories, mills banks, pay little or nothing to local boards or even to municipalities. There is nothing like equality in this respect. The whole system of local taxation requires overhauling, and it is hoped that this Committee will undertake the task. Now to come to the relative liability of the owner and the occupier, I may at once state that in practice, it is the owner that bears the tax, in the case of land cess in local board areas. But in the case of house and land tax in municipalities, the owner is able

to shift the burden on to the occupier. It is this way. Supposing I have lands in a village in the Godavari district. I lease them out at so much rent per acre. I pay the taxes myself and taxes include local cess. In fact, these are collected together. I thus bear the land cess myself as owner. Suppose again I have got a house within the Municipality of Rajahmundry. I rent it out and my tenant occupies it. I invariably take care that my rent includes the house tax payable to the municipality. I thus shift the municipal tax on to the tenant. I do not take this into account in leasing out my lands in the local board area. This is more or less the practice in my districts. I do not see any injustice in the practice.

Q. 113. My observations in the beginning of my answer to question 112 meet the points raised in this question. The fact that landowners alone are made to pay and that other classes are escaping local taxation is a sufficiently good reason for the limitation mentioned in the question. It is only right that local authorities should have recourse to other forms of taxation, and provided they keep in view the canon of ability to pay, there need be no apprehensions as regards the defensible nature of those other forms of taxation.

Q. 117.—Before I answer this question, I should like to mention that one particular national service, namely, primary education, should be undertaken as a primary duty of the Government and should not be entrusted to local bodies, assisting them by means of grants-in-aid. It ought to be a first charge upon national finances, and it should be managed and controlled directly by Government.

As regards other national or onerous services I agree to the principle of grants-in-aid. I think these grants should continue, though I know that many local boards and municipalities have often wasted them away. Several local boards had shown signs of insolvency and had to be aided by Government irrespective of the services rendered by them. The financial weakness exhibited by many local boards caused a great deal of anxiety to the Madras Government in recent years. One great disadvantage in these grants-in-aid in lump sums is due to the fact that they are sometimes made without any enquiry into individual necessity. Waste was the inevitable consequence. Equality also has not been maintained between one local body and another. I am of course against unconditional contribution in general aid of local finances. They should be earmarked for particular purposes. But even then the evils that I mentioned may not disappear. It is difficult to say on what basis such subsidies should be calculated. Population, incidence of local taxation, the total amount annually collected from its own sources of revenue, capacity to spend economically and efficiently, and the urgency of the need, are all factors to be considered in fixing the extent of the subsidies. Perhaps the experience of England of 20 years ago as disclosed in the report of the Royal Commission on Local Taxation and the recent criticisms of Geddes Committee on National Expenditure may assist this Committee in arriving at a proper solution of the somewhat unsatisfactory state of local finance in this province.

Q. 118.—I think the stimulus referred to exists in the case of education and road maintenance. But, as I have already said, I should prefer primary education to be taken in hand by Government and managed by them directly. In the case of road maintenance, the Government grant a maintenance charge of Rs. 500 per mile for all trunk roads and all big inter-district roads. The control exercised by the supervision of the Superintending Engineer is quite adequate. As regards rural sanitation, I am afraid the problem has proved to be too much for local bodies as well as for Government. I do not know if it is possible for local bodies to meet the demands of public health, in this direction with any amount of grants-in-aid. The problem again is complicated and I would not advocate its mixing up with the present enquiry.

Q. 120 (i).—This tax will satisfy the criteria of equality and ability to pay, but in other respects it will be a hopeless affair. The cost of collection would be enormous. The means for ascertainment will not be available. A sort of inquisitorial enquiry will be needed.

(ii) I have already given my opinion as regards income-tax on agricultural incomes in answer to Qs. 33 to 47. Succession duties and tobacco monopoly, I shall deal with later on. Registration fee on marriage seems to be quite reasonable provided of course a graded scale is introduced—the

poorest classes paying almost nothing beyond a nominal fee. The trouble about this, however, is twofold. It introduces the element of registration in a purely religious ceremony. Secondly we pay a sufficient fee to the *Purohits* and to the community for the evidence of the marriage. A further registration fee may reasonably be held to be an additional burden. I don't think that the other taxes proposed by Prof. K. T. Shah need any notice. All those items pay local rates. It may not be wise to bring them under National Taxation.

(iii) I sympathise with the Member of the Indian Economic Association who suggested a tax on dowries. He seems to be a good social reformer. But the tax is almost incapable of collection. It can easily be evaded. The payer and the payee of the dowry can easily collude and deny the payment or the receipt of the dowry.

(iv) The only items which call for remarks from the list of Prof. K. V. Rangaswami Ayyangar are patent medicines, inhabited house duty and increment value duty. The first is a matter of health and the tax collected thereon would be very small. Universal inhabited house duty would be a hardship on the poorer classes. It is not easy for assessment and is not suited to this country. In any case, it can be thought of only for local taxation and not for provincial or central taxation. As regards the increment value duty, all that I can say is that it is a very complicated business. It was tried in England for ten years and was given up in 1920 as the cost of valuation exceeded the revenue. Except when a boom occurs, it is very rare that investment in land pays more than an investment in a bank. People in the villages invest their moneys in land, not because it is the best from the point of view of a good return, but because it is the easiest and safest investment. "Cash runs away, land remains", that is the belief of the average ryot. The old head of the family generally thinks that his sons will squander away cash, but cannot throw away their land. I do not know how far under the above circumstances an increment value duty will pay in India. When it has failed in a country like England, it seems to me to be undesirable to think of it in this country.

(v) I can agree to an export duty on jute. India holds almost a monopoly in the production of this article. Dundee and other places cannot help purchasing jute from India. The 25 per cent *ad valorem* duty will also help the Indian jute industry. The same remarks apply perhaps to shellac. I cannot say the same thing of our hides and skins. As regards an export duty on hides and skins, it may perhaps be mentioned that a duty of 3 per cent was imposed on hides and skins tanned, from 1867-71. The excise duty was then stopped. In 1917 after the outbreak of War, the Indian Munition Board took over the control of exports. The Board purchased raw hides for British War Office and Italian Government. There was then a boom in the trade. In that year the Madras Government recommended to the Government of India that a duty of 10 per cent should be levied on raw hides and skins exported, with a proportionate rebate on allied countries and colonies which gave concessions to India in the matter of their import duties on finished leather and leather goods. The South India Skin and Hide Merchants' Association recommended a duty of 20 per cent. The Government of India accordingly imposed a duty of 15 per cent in 1919. I believe the duty remains in force to this day. The boom has since subsided. Madras exported in 1918-19 hides and skins worth £ 4,316,261, while the exports from all India during that year amounted to £ 6,526,301. These figures exclude Government stores. After Peace was concluded, however, there was a great depression. Large stocks held by the War Office had to be disposed of in continental countries. I do not know if Mr. Vakil would still insist on excise duty on hides and skins.

(vi) My views on the taxation of agricultural incomes are expressed in my answers to Qs. 33 to 47. The other suggestions made by Sir Gangaram are matters of detail.

Q. 121.—The question of taxing tobacco was considered by the Madras Government soon after the Reforms were introduced. They came to the conclusion that it was a reasonable source of revenue. But so far as the Madras Presidency was concerned, the tax was not estimated to yield much revenue. I do not know whether tobacco is a luxury, with a certain section of people amongst the middle and labouring classes, nor am I quite certain as to the tax on tobacco having the advantage or being administered at a

very low cost. I agree, however, with Jensen that the tax might lead to curtailment of consumption, and that that would be a desirable change from the social point of view.

Qs. 122 and 123.—Imposing an acreage duty on cultivation will be considered an additional tax on land. Means 2 and 3 are apt to be mistaken for a monopoly and State interference with private enterprise. Means 4 and 5, preferably 5, may be tried in the beginning until experience might suggest a better means.

Q. 124.—Fixing up a minimum of cultivable area is apt to create discontent. Several villagers grow tobacco in their backyards, mostly for home consumption. While the proposed rule may perhaps be applied with advantage in the cultivation of *'Lanka'* tobacco, it will cause hardship in the case of what are known as *'Garapa'* tobacco and *'Pati'* tobacco. I cannot therefore advocate the French or English system referred to in this question.

Q. 125.—I do not advocate an acreage duty at all. If the duty is to be imposed subsequent to the initial sale by the cultivator as is contemplated in clause 5 of Q. 122, this difficulty does not arise. The excise must be levied on the dealer and not on the producer.

Q. 130.—I believe I have already stated that the taxing stage should come in only after the producer has sold tobacco. It is only then that it can be assessed. It is not easy to control operations from the cutting of the crop to this stage. Some risk of leakage is inevitable. Perhaps, the example and experience of the collection of cess on cotton brought to factories, gins and markets may suggest the best method of charging and collecting the tax on tobacco.

Q. 132.—In the first place, I strongly object to any excise duty being levied on Indian-made cigarettes. The case of unmanufactured tobacco is different. Though we do not hold a monopoly of it in production, there is sufficient demand in foreign countries for our tobacco, especially the cheaper type. *Beris* and snuff are peculiar to India and will be in demand abroad, and an excise on them will not affect the trade. Even Indian-made cigars have this advantage. For being cheap they sell in foreign markets. It may be mentioned that before the War the principal destination to which unmanufactured tobacco was exported were State Settlements, Aden and Dependencies, Hong Kong, France, Holland and Germany. Since the War we have lost our trade with the four last-mentioned countries, but have added Great Britain. Our manufactured tobacco goes mostly to Malaya Peninsula. I said I would strongly object to any excise duty on Indian-made cigarettes. My reasons are as follow: There has of late been a phenomenal expansion in the import trade in cigarettes. In 1920-21 we imported cigarettes worth £2,564,000 mostly from Great Britain and the United States of America. This is due to an increasing demand for cigarettes on the part of all classes of population, who are no longer content to smoke the indigenous *biri* or the home-made cigar. This demand has induced the opening of a number of factories for the manufacture of cigarettes in India, of which the Peninsular Tobacco concern at Monghyr is by far the largest. There is one factory at Calcutta, and another in Madras. There is keen competition between foreign and Indian cigarettes. An excise duty will stifle the growth of Indian industry in this line. The excessive imported cigarettes have also got to be fought against. Even on cigars, *biris* and unmanufactured tobacco, the excise duty should be very moderate.

Q. 133.—I do not know if the recommendation of the Indian Fiscal Commission to the effect, namely, that the system of specific duties and tariff valuations might be tried in preference to *ad valorem* duties, cannot advantageously be applied in the case of tobacco and cigars.

Q. 135.—I am not aware if any foreign tobacco is used in manufacturing cigarettes in India. Virginian and other fine tobacco is used as wrapper leaf in cigar-making. But such costly stuff is not used in cigarettes. Imposition of an excise duty on raw tobacco may, to some extent, handicap the Indian cigarette industry But a system of rebates on all tobacco converted into cigarettes in India may perhaps solve the problem. I think the import duty on manufactured tobacco is sufficiently heavy at present.

Q. 137.—I agree that duties on inheritance or succession should be among the first to be considered, if it be necessary to find new sources of taxation.

Q. 138.—The three principles enunciated by Robinson can be availed of in evolving a system of taxation on inheritance or succession in India. In the case of succession by survivorship, the relationship of those who succeed to the deceased need not count. But the share of the deceased, while alive, might be taken as equivalent to the size of the estate left. In the case of inheritance, the relationship of the inheritor to the deceased will be material in a graduated scale. Also the amount inherited will play its part.

Q. 140.—The schedule of rates in annexure P will serve as a guide, but we must prepare our own schedule to meet our conditions.

Q. 141.—I have already stated that clause (a) is applicable in the case of succession by survivorship. Clauses (b) and (c) are inapplicable in this province.

Q. 142.—I accept the proposition stated by Shah, and quoted in the question.

Q. 143.—I do not know if the difficulty mentioned in Shah's passage quoted in the question is peculiar to India, but in my opinion the difficulty is not insuperable. Especially, if small properties under Rs. 5,000 value are to be exempted, Sir James Stephen's observation, urged long ago, can no longer be said to apply to present conditions. Years ago, when land was extensive and population sparse, a joint family with as many male members as possible was a source of strength. At that time too, the head of a family was an indispensable person. Conditions now are altogether changed. Education is spread, and the junior members of the family are often considered to be cleverer and more useful than the older generation. I do not think that the death of the head of the family would, in many cases, make any difference at all. The difficulty which Shah considers unanswerable may perhaps arise when only minors are left on the death of the head of the family, though even in such cases instances are not wanting of a capable female in the house who could manage the affairs thereof. I cannot, therefore, subscribe to the apprehensions entertained by Shah in his passage referred to.

Q. 144.—Some movable property will always escape taxation. But when it is remembered that the bulk of the property is immovable and that very little money is generally invested in movable property, excepting in jewels for females which will be *streedana* property in their hands and therefore not taxable, evasion of any great consequence is not likely.

Q. 145.—I should prefer the revenue derived from this tax to be added to the provincial revenue and not to the central exchequer. If it is to be a central revenue, the income-tax department will have to be entrusted with the task of levying.

Q. 146.—Mr. Shah's minimum of Rs. 5,000 may for the present be accepted as the exemption limit. Personally, I think a limit of Rs. 2,000 will do, but as the tax will be new and naturally unpopular, the higher limit may be advantageous in the beginning. As time advances and the tax is familiarised, the exemption limit may be brought down even to Rs. 1,000.

Q. 147.—I should prefer the method of the Reform Scheme, according to which separate sources of revenue are allotted to the Federal or Central Government, and others to Provincial Governments. No doubt the vexed question of subventions or contributions to the Central Government is tacked on to this financial distribution, but this was only as a temporary measure. It was expected that, in the fullness of time, the contributions would disappear and the Central Government would have its own resources, while the provinces would have their own. The objections pointed out in annexure Q are no doubt real, but if contributions could be limited to only extraordinary circumstances, it ought not to be difficult to so divide the sources of revenue between the Central Government and the provinces, as each can get on without help from the other during normal years. When national calamities befall, mutual help will be necessary. For instance, if war breaks out, the provinces may have to contribute to the central exchequer. When floods devastate a particular province, the Central Government will have to come to its rescue. In both cases, if the help from one to the other can only be inadequate owing to the enormity of the demand, fresh taxation may have to be resorted to, and such taxation may

be provincial or central according to the cause of demand. I must therefore consider that plan No. 3 is about the best. As pointed out in annexure Q, contributions or subventions may be unavoidable, but they need not be a permanent feature of the financial system.

Q. 148.—The danger referred to in this question is not likely to occur often in India. No doubt, the central revenues are to a certain extent dependent on fluctuations in trade, but they are not the only sources of revenue. They have a wide field, which was not the case in the quotation from Bullock referred to in the question. Embarrassing deficits have been common enough with the Government of India since the introduction of the Reforms. I do not know whether this year's financial condition may be one of embarrassing surplus, but these surpluses and deficits cannot altogether be avoided in a country like India. There were huge surpluses during the time of Lord Curzon's viceroyalty, and I well remember the late Mr. Gokhale's attacks on surplus budgets. While everyone must deplore "the dreary alternative of embarrassing surplus and embarrassing deficits", it must be recognized that—do what we may—we must be prepared for occasional windfalls and unfortunate set-backs in this country, whatever be the financial relations between provinces and the Central Government, and whatever changes may be effected in the sources of revenue allotted to each. It is difficult to say that most of the revenues should be steady and certain. Take, for instance, the two main revenues of this province, land revenue and excise on liquors. The former depends upon good seasons and timely rains. If famine breaks out, an embarrassing deficit will have to be faced. It is more so in provinces like the Central Provinces and the Bombay Presidency. This is so in the case of excise duty on liquors also. Pussyfoot Johnsons are not wanting in this country. If they had not succeeded, there are reasons. Total prohibition is gaining ground every day, and temperance reformers are always on the alert. Not only is there the danger of fluctuation in this revenue, as recent events and the activities of the non-co-operators have amply demonstrated; the future financier of India must always be prepared for the possible contingency of this revenue being wiped out altogether. How then can it be said that the possibility of embarrassing surpluses and deficits is the direct result of the division of sources of revenue now obtaining? I am not unaware of the present difficulties. The demand of Bombay and Bengal for further revenues or for a share of the income-tax is as much justified as the claim of Madras, the United Provinces and the Punjab for the effacement of the provincial contributions. But these are necessary evils. Not that balancing factors cannot be discovered which might to some extent make up for this embarrassing element. For instance, if an excise duty or export duty is levied, say, on jute, and a portion of the revenue is given to Bengal, the rest going to Central Government, a solution could have been arrived at, which might, to some extent, relieve Bengal and minimise the force of her complaint. But as pointed out in another portion of this evidence, such a course will be rather unscientific and might lead to complications. One great advantage of the present system of the separation of the sources of revenue is simplicity—a virtue which cannot be admired too much in any system of taxation. If you are to set out in quest of balancing factors, I have no doubt you will discover many—and very useful and advantageous ones they will be. But then, you cannot avoid complexity which is not desirable.

Q. The commercial provinces complain that the present division of sources of revenue is unfair. To this class belong Bombay and Bengal. Agricultural provinces are satisfied with the present division, but the advantage they have got is taken away by the heavy contributions demanded of them. The Punjab, the United Provinces and Madras belong to this class. But it ought not be difficult to improve upon the present division by some small changes, by which the agricultural provinces may lose one or two sources, accompanied by the abolition of contributions, while some new sources of revenue peculiar to the commercial provinces may be tapped to their advantage and that of the Central Government. Experience, so far gained and likely to be gained in the near future, can suggest means of a fairer distribution which can reduce discontent to a minimum.

Q. 150.—It is possible, but at the expense of simplicity.

Q. 151.—Land revenue should always be a source of provincial revenue.

Q. 152.—I entirely accept that taxes on exports and imports should go to the central exchequer.

Q. 153.—I do not think that, simply because a particular province has the monopoly of producing a certain material, excise duty on that material

should go to that province. That principle can be carried too far. If Bengal wants all the revenue from an excise on jute to herself, why should not Madras claim any excise on cotton, hides and skins and oil-seeds for herself? If a tax on Malabar tiles and bricks be levied, should the revenue go to that district alone? But I will not push my conclusions further. If such duties or a portion thereof can be utilised as a balancing factor referred to in my answer to Q. 148, I will accept the suggestion implied in this question.

Q. 154.—The case of excise, that is, abkari, liquors, opium, etc., is different. Theoretically speaking, all excise duties are borne by the consumer. Export duties therefore are borne by the people to whom the article is exported. In the case of liquors, etc., the duty is borne likewise by the consumer, but the consumers in this case happen to be citizens of the province. Therefore, it is only right that this taxation should go to the provincial funds.

Q. 155.—I would apply the same principle in the case of tobacco also. That is to say all tobacco locally consumed should pay the provincial duty. All tobacco exported from the province, whether it be to sister provinces in India or to the Indian States or to foreign countries, should pay excise duty to the central exchequer. I am not aware of any complications involved in such a system. But I feel that it is based upon sounder principles.

Q. 156.—While agreeing that income-tax should be centrally administered, I do not see any objection to the succession duties being administered provincially. There is an essential difference between income-tax and succession duties. In the case of income-tax, those that pay the largest tax will generally have inter-provincial transactions. But in the case of succession duty, inter-provincial trade plays a very minor part. I mean to say that the bulk of succession duty will be derived from immovable property within the province. Traders also will pay succession duty, but that will be very small when compared with the duty payable by successors to real estate.

Q. 157.—Stamp duties, so far as the above reasoning is considered, are nearer to succession duties than to income-tax. I would, therefore, treat them as provincial, and in this respect I make no difference between judicial and general stamps.

Q. 163.—The monopoly referred to in the quotation from Mill is perhaps unavoidable in the case of the services mentioned—post office, etc. In a country like India, perhaps railways can be, or ought to be, added to the list of the subjects. I am aware that in England rival railway lines from one place to another are laid and worked. I do not, however, think that such a rivalry or competitive train system would be possible or desirable in India. I do advocate State enterprise in such services. It is part of a scheme of nationalization, so much advocated by a section of modern politicians. How far the revenues derived from such services can be treated as taxes is a matter of controversy amongst economists. But, to the practical financier it is a source of revenue which he can ill-afford to lose.

Q. 164.—No.

Q. 165.—To a certain extent, salt, alcohol (spirits, liquors, etc.), opium, *ganja*, *bhang*, explosives, quinine, are at present monopolies of the Government. I do approve of the monopoly of the above articles, but I do not propose to extend the principle of monopoly to any other article.

Q. 168.—It is no doubt true that in recent years the land revenue staff is to a certain extent freed from some taxation functions. Thus, the Revenue Department is now not undertaking the work of assessing income-tax. But the collection of income-tax is still with the Revenue Department. In fact, so far as I am aware, all work of collection—whatever be the revenue—has always been, and is, to this day done by the Revenue Department. Hereafter also, the Revenue Department alone will have to collect the old taxes as well as any new tax that may hereafter be imposed. As regards other taxation functions, it depends upon their complexity. Taxes on tobacco, for instance, can be managed by the Revenue Department. In fact, each case must be considered by itself. I do not think the revenue staff is excessive for its present duties. But it ought to be possible to entrust them with some more work in their line.

Q. 169.—Experience so far gained in the administration after separation of excise from salt is perhaps not sufficient and long enough to enable us to draw any conclusion. I have however heard complaints that difficulties are being experienced by the people in the salt administration.

Q. 171.—This is perhaps part of a larger problem. Experience of America has taught that an honest and efficient administration was impossible, where public servants had to look to their promotions or even permanency in service, to their loyalty to the party in power for the time being. The appointment of a Public Services Commission contemplated by section 96 (c) of the Government of India Act is perhaps the result of such experience. My own experience both in the Government of Madras and in the local board and municipal administrations left no doubt in my mind that, for a proper and efficient administration, all public officers should be independent of electorates or their representatives as far as possible. Taxation officers can be no exception to the above rule

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Sir K. V. Reddi gave oral evidence as follows :—

The President. Q.—You held for some years the Development portfolio?

A.—Yes.

Q.—You are now a Member of the Legislative Council?

A.—Yes.

Dr. Paranjpye. Q.—What departments were you in charge of?

A.—Industries, agriculture, co-operation, veterinary and one or two minor subjects.

Q.—Were you in charge of excise?

A.—No.

The President. Q.—We have not been able to obtain the estimate of the agricultural wealth of the Madras Presidency referred to in your reply to Q. 2.

A.—It was a pamphlet published by Mr. Sampson: I can send you a copy when I go to Madras.

Dr. Hyder. Q.—In answer to Q. 10, you say: "I am not enamoured of the distinction between tax revenues and non-tax revenues". Will you please substantiate that statement?

A.—I was only thinking of the fact that it is more or less a scientific distinction. In practice, so far as the financier is concerned, he gets his revenue collected, whether it is tax revenue, or non-tax revenue.

Q.—Suppose the municipality of Ootacamund ran a service of motor buses from here to Coonoor: I have to go to Coonoor and make an agreement with some motor-driver to take me for so much. When the Government does that, Government charges the same amount. Whatever I may have to pay to the municipality of Ootacamund for carrying me from here to Coonoor, would you call that a tax?

A.—So far as local bodies are concerned, that distinction obtains; but take the higher case of irrigation or railways or post office. It won't be said they are not taxes.

Q.—Take the case of the post office: in so far as Government obtains more than is necessary to compensate it for the efforts and sacrifices it makes, to that extent the extra revenue would be in the nature of a tax, but the whole revenue would not be a tax.

A.—It is so, scientifically speaking, but what does it matter to the taxpayer?

Q.—The people who use the roads or the railways or the telephones or the post office or the motor buses get a service and pay the price. If it is an excessive price, that excess would constitute a tax.

A.—I agree.

The President. Q.—You conclude your answer to Q. 8 by saying, "When that stage is reached it will be easy to conduct an economic survey with the accuracy almost of the population census. Any earlier attempt will be

doomed to failure and will only end in enormous cost." Speaking as an ex-Minister of Agriculture, do you hold that there are no materials on which we could base an estimate of the incidence of taxation at present?

A.—There are no reliable data.

Q.—It would take years to get any reliable data?

A.—My scheme is that the co-operative society system must first establish itself in the country.

Q.—So far as this Committee is concerned, we can only go on general considerations.

A.—Yes.

Dr. Hyder. Q.—You are of opinion that a bare return on capital invested should be the ideal as regards commercial undertakings?

A.—Yes.

Q.—What is your view with regard to water-rates?

A.—I have accepted the view that water-rates in all cases should include only so much as is necessary to recover the interest on capital invested after providing for depreciation, etc.

Q.—You will take each case separately?

A.—Yes.

Q.—You will not have uniform rates?

A.—No, because in some cases the rates will have to be different, e.g., an old scheme like the Godavari costs hardly anything at all, while a new scheme like the Mettur project may cost more. Unless you charge Rs. 9 or Rs. 10 an acre, you may not recover your costs. In a project in the Nellore district, they had to collect about Rs. 15 or Rs. 20. Each scheme will have to be treated on its merits.

Q.—You are of opinion that the rates charged in the Godavari and Kistna districts are more than adequate?

A.—Yes.

Q.—They are rather high?

A.—Yes.

Q.—Take the case of a man who invested money in land in the Godavari and Kistna districts sixty years ago; he might originally have invested only a thousand rupees, but that land may be worth at the present day Rs. 60,000.

A.—Yes.

Q.—Why do you tie the hands of the State which represents the general community? Why should not its schemes also have the same advantage as a private man who invests money in land? Why shouldn't the State charge more and take a higher capital value for its schemes, just as a man who built a house sixty years ago in the Godavari and Kistna districts will be getting more money?

A.—The primary function of irrigation is to increase the production in the country, to give you more food-supply and increase the national wealth.

Dr. Paranjpye. Q.—Will production be affected? You can always charge such rate as would be allowed provided that rate is not so high as to keep land out of cultivation.

A.—My contention is that this increase of national wealth is a sufficient reason why the State should be satisfied with the present rate.

Q.—Charging high only means different distribution of the wealth.

A.—You should not kill the goose that lays the golden eggs: you ought to induce people to take to irrigation.

Q.—It is understood that in a case like that such high rates will not be charged as to deter people from taking water.

A.—That is so.

Q.—Within that limit production will not be curtailed?

A.—It is not necessary that production should be curtailed, but it should be the policy of the State that in matters which conduce to the national wealth it should not introduce any impediments in the way. It should be the policy of the State to encourage such things.

Sir Percy Thompson. Q.—I don't see there is any question of encouragement or discouragement. Suppose you put water on a man's land and you increase its value by Rs. 100: you only take Rs. 60 or Rs. 70 of those rupees. Giving water to that land is encouraging production; so, that man is more wealthy?

A.—I should consider that to be the function of a private citizen or of a company, but the State's functions seem to me to be different.

Q.—Here is a benefit which is given by the State and at the State's expense: why should it be given to selected individuals who have their land in such a position as to get irrigation?

A.—After all, the State's money is the nation's money, and I don't see why you should take from one particular section more than what it costs you.

Q.—Because you don't do it to everybody: you select particular individuals to whom you give this benefit and you should charge a rate commensurate with the value which they get.

A.—I don't agree, because it does not satisfy the ground of equality of payment. I mean that every man who can afford to pay should pay his share, you take a larger share from one particular community than from another.

Q.—Why should you give a man the benefit of Rs. 100 for no effort on his part?

A.—In the first place, I do not agree that there is no effort on his part; he has to do a large amount of work, his family helps him and he uses his cattle. He invests his own money in it.

Dr. Paranjpye. Q.—What we are talking of is the net return and not the gross return. Rs. 100 is the net additional return after allowing for all expenses of cultivation.

A.—I have yet to come across an acre of land which earns Rs. 100 after allowing for all expenses.

The President. Q.—May we take an extreme case? Suppose you have land to which nature supplies water without any cost to Government at all. You are going to charge the man the dry rate only. Is that not a *reductio ad absurdum*?

A.—It is not.

Q.—If nature supplies you with water free of charge and you are able to grow a wet crop on the land, although Government pays nothing for the water, it is assessed wet in the settlement, not dry.

A.—I do not know whether under the recent Irrigation Act that is the law.

Q.—It is assessed as wet under land revenue.

A.—When you have power to tax land as you please, you may do it.

Dr. Hyder. Q.—It is a case of the land giving more returns; Government takes more out of land which gets its irrigation by nature and produces more.

A.—On what principle Government takes more I don't know; they do not spend any money.

Q.—On the same principle that if two people have to do a piece of work, the stronger man will be given the heavier part.

A.—I can understand it as a tax on income, but where I am paying land tax and the bountiful heaven gives my land water, you have no right to tax it again.

The President. Q.—But your land tax is a share of the produce of your land, whether wet or dry.

A.—I must dispute that position.

Q.—Let us take the case of Lower Burma where an enormous area is cultivated under rice. There are no irrigation works, the water being provided by nature. Do you mean to say that it should pay only the same rate as dry land in Upper Burma?

A.—I don't because you have your *tarams* for land tax.

Q.—You take a joint return of the land *plus* water?

A.—Just as you tax better land with a higher *taram*, so also you tax those lands at a higher rate than others, but you cannot tax them with any irrigation cess.

Q.—Have you any objection to the charge for irrigation being treated as part of the cost of cultivation for land and then taking a land tax based on settlement principles on the net return that is left?

A.—I do not accept the principles generally now followed; possibly in the next Bill (that is now before the Council) this will be decided in this province. I do agree that Government have a right to obtain a certain amount of tax from land: that depends on the land itself. Unless, however, you do something by way of irrigation works, this special tax (called irrigation cess) ought not to be levied.

Q.—You represent a constituency which almost entirely consists of persons interested in irrigation under the Godavari and Kistna deltas.

A.—That is so.

Dr. Paranjpye. Q.—Would you be quite reconciled to having different rates under different schemes?

A.—Yes.

Dr. Hyder. Q.—You will have this state of affairs; that the more favourably situated land will pay very little, while that covered by the Mettur-Cauvery scheme will pay Rs. 15. Is that fair?

A.—It is fair in the sense that because Government have invested large sums of money, they are entitled to recover interest on that money.

Sir Percy Thompson. Q.—It does not matter to the cultivator what Government spends on the project: all he looks to is what benefit he receives.

A.—I view it from the nation's point of view; the State is supposed to represent the people and to spend whatever is necessary for the nation.

Q.—Not for a particular class of people?

A.—That is true: in this particular locality they happen to be payers of a particular tax: others pay income-tax: others pay some other tax.

Q.—There are certain general taxes.

A.—All principles of taxation, I suppose, are based on this, that you tax only for what is necessary for the administration to be carried on effectively and efficiently. When a particular department of administration can be carried on at a particular cost, there is no justification for taking more.

Dr. Paranjpye.—The division into departments is only for convenience: Government is all one.

Dr. Hyder. Q.—In irrigation schemes it comes to this: if you limit the charge you limit the power of the State to undertake beneficent activities.

A.—I do not agree there: if statesmen realize their responsibilities, they ought not to limit it to that condition. They ought to devise means of improving the national wealth and find out means by which the national wealth could be increased.

Q.—Taxation which will serve the national wants can only come from certain sources. You tie the hands of the State in respect of certain sources: does it not come to this: that you starve the people in respect of some modes of development and you over-indulge them in others?

A.—I can understand a special charge if any national emergency occurs.

Q.—I am not talking of an emergency. I am talking of a matter in which you are perhaps very much interested. For instance, the spread of elementary education in this Presidency. Where is the money to come from?

A.—From various sources.

Q.—You put a limit—the bare return on the capital.

A.—Only on the undertakings made by the Government. I do not put any such limit on the land tax.

Q.—We have been told by some of the witnesses that land cannot bear any more burden.

A.—So far as our province is concerned, we are paying the largest amount per acre.

Q.—If this is so in respect of land revenue and if you tie the hands of the State in respect of irrigation and if the income-tax people cannot bear more, how is the national development to go on?

A.—In the first place, I do not admit that the income-tax people cannot bear more. They can pay more.

Q.—The income-tax people will say the same with regard to the agricultural people.

A.—But you have to judge how far each case is just. Each represents his own case. I have spoken about the death duties. They will affect the landholders; they will affect the *mirasidars*. Not that I am unwilling to pay if a new source is found. But so far as irrigation is concerned, I think it is not fair to get more than what is necessary.

Dr. Paranjpye. Q.—Don't you think that all irrigation schemes should be considered as a whole?

A.—Different schemes will have to be viewed in different lights. In fact, our Irrigation Bill is based upon that. Suppose one scheme requires to be worked with a capital which will give a return of 6 per cent and it will not pay unless you charge Rs. 9 per acre, though in other cases it will pay you if you charge less. Then in that case I am prepared to pay Rs. 9.

Q.—Take the post office. Suppose you want to post a letter from Madras to a place very near Madras. You will have to pay one anna for it, because other letters from Madras to Simla have also to be carried for the same rate. Therefore, you put on an uniform rate of one anna. But will it be proper to say that letters to places near Madras should be carried cheaper?

A.—The analogy does not hold. These irrigation schemes are limited to particular localities. How can a rate in the South affect another in the North?

Q.—The Government as a whole has got one irrigation system.

A.—I do not agree there. They are different schemes altogether.

Q.—They are of the same department.

A.—The fact that one agency works it does not mean that.

Q.—Exactly so. The same argument that applies to the post office can be applied here.

A.—I do not know whether the universal system of post offices could be compared with the system of irrigation which is limited to definite areas.

Dr. Hyder. Q.—When were these rates revised in the Kistna and Godavari districts?

A.—A number of times.

Q.—When was the last occasion?

A.—1905.

The President. Q.—In reply to Q. 24 you say, "In the same way in a country like India where the taxation is already unbearable, not because it is high but because the country is poor, every new tax is hated".

A.—Yes.

Q.—You lay down certain conditions before a new tax can be raised?

A.—Yes.

Q.—What we have to enquire into is the system suitable for an ideal form of Government. We have not to consider whether there is responsible government in the Government of India or anything of that sort.

A.—Of course, it is left to you. I cannot interfere with your functions. But I think that any proposal for a system of taxation will have to take into account the practical difficulties in the way. I suppose the object of your recommendations is that the Government of India should follow them and put them into practice.

Q.—I do not think we ought to qualify a proposal for a good tax because of the present transitional stage of Government.

A.—I have nothing to say.

Dr. Hyder. Q.—You don't like poll tax?

A.—No.

Q.—Suppose the rich people in the Kistna and Godavari districts had to pay a heavy poll tax for the spread of education among the poorer classes in those districts. Would you object to that?

A.—Yes. You can take the amount in another form; but this poll tax has got a certain insinuation about it.

Q.—It is a question of transference of money from the richer to the poorer classes.

A.—I have no objection to that. You can have increased tax on agricultural income if you give permanent settlement. I am perfectly willing that you should take as much as we deserve to pay. I wish it to be understood that I am not unwilling that my people should contribute for national expenditure in accordance with their ability to pay. I only object to the form. I object to the poll tax. You can have other forms of taxation.

Q.—What other forms?

A.—Death duties, succession duties, increased income-tax on agricultural income above a certain limit in case permanent settlement is granted and so on.

Q.—Permanent settlement?

A.—Yes; where is the difficulty? In Bengal you have got it and why should you not have it here?

Q.—If you have a permanent settlement, you are depriving the community eternally of all increases which belong really to the community.

A.—Then why not abolish the permanent settlement in Bengal?

Q.—What has been, has been.

A.—That argument does not appeal to me.

The President. Q.—What you propose is that you should standardize the present assessment and super-impose an income-tax on agricultural incomes above a certain limit?

A.—Yes; standardize and equalize.

Q.—You don't see any difficulty in times of emergency in adding a percentage of cess to that?

A.—That will always be there. If there is war, for instance, everybody must be prepared to give what he has got.

Dr. Hyder. Q.—Why is the salt tax very objectionable?

A.—It is more political.

Q.—On theoretical grounds, there are no objections to the salt tax?

A.—Our old theory is that necessities should not be taxed.

Sir Percy Thompson. Q.—Do you agree with this: "Under the Madras ryotwari system land revenue is a rent; in theory it is approximately half the economic rent; in practice, it varies from a small fraction of such economic rent to a figure which approximates very closely to the whole economic rent"? And would you standardize that?

A.—I do not agree that it is rent. I do not agree with that statement. But there are cases in which the tax is lower than it ought to be.

Q.—It varies from a small fraction of the economic rent to a figure which approximates very closely to the whole economic rent.

A.—That does not apply to the tax paid during the last 20 or 25 years. I have invested all my earnings in land; and I don't get as much return as I would get if I had invested that amount in a bank.

Q.—The statement here is that land revenue varies from quite a small fraction of the true economic rent.

A.—Will you kindly define 'economic rent'?

Q.—It is the differential profit arising from cultivating a particular piece of land over and above the profit arising from cultivating land which is on the margin of cultivation.

A.—That is what is left to the actual farmer?

Q.—No; it is what is left for the landholder. It is the surplus.

A.—Suppose I invest Rs. 1,000, in land and I get a return which would be less than what I would get had I invested that amount in a bank, I consider that I am not getting my economic rent. It may not be scientific.

Dr. Paranjpye. Q.—You consider it as a return on your investment.

A.—Your definition may be more scientific; but mine is practical.

Sir Percy Thompson. Q.—When you do charge the economic rent, what you do is to leave the tenant in exactly the same position as the man who is cultivating the land on the margin of cultivation.

A.—How far that theory can be introduced in this country is a matter for the Committee to decide.

Q.—The statement here is that land revenue varies from a very small proportion of that rent to almost the whole. You are really prepared to standardize the inequalities by giving permanent settlement?

A.—Standardization, I agree to. But I do not accept the definition of economic rent. Other factors will have to be taken into account. It is purely a Western idea, which is not much known to us.

Q.—But it is there. You cannot get away from that.

A.—When people have invested money and have entered into transactions for generations together and have incurred responsibilities, I do not know if theories should disturb them.

The President. Q.—You agree that in certain cases the land revenue of the small cultivator with one or two acres sometimes even encroaches on his wages? He is not able to make a living on that land.

A.—That contingency does not occur in my district, but such difficulties, no doubt, occur in the dry districts and some other places.

Q.—There are cases of that kind; and the cultivator can hardly make a living out of his land. On the other hand, in a permanently-settled area, the *kist* he pays is a very small proportion of the return from the land. Again even in ryotwari areas, in a district settled 20 years ago, the revenue may be an extremely small proportion of the present return from the land.

A.—There may be very few cases of that kind. So far as my districts are concerned, I do not think any such cases arise. I do not admit that in the last settlement we were lightly taxed.

Q.—We heard the Advocate-General and Sir T. Desikachariar this morning, and we were told that the value of certain lands was one hundred times the land revenue, so that the land revenue is a small proportion of the return.

A.—I do not deny that; but that does not necessarily imply that the tax is very low.

Q.—That is why it is stated that it varies from a small proportion of the economic rent, that is, between large, prosperous cultivators and the poor man with bad land. And would you standardize that?

A.—What is now obtaining in my district is already standardized. You don't find inequalities in my district. I would standardize in this sense; that 30 years ago it was taxed. I do not insist now that the old tax fixed 30 years ago should be continued. The land will have to bear a little more. But the trouble is that 30 years ago one district was settled, 20 years ago another district was settled and 10 years ago some other district was settled and so on. The rates would naturally be different. I would like to value the whole thing to-day; and if to-day by some process we can fix the rates for all the land, I would prefer that.

Sir Percy Thompson. Q.—You would not standardize those inequalities; but you would have a fresh valuation and assessment and standardize that?

A.—Yes.

Q.—You say that "the Indian super-tax on companies in its present form is justifiable". Why do you say so?

A.—I do not see any inconvenience in it. Companies, generally, when they get profit, should pay something to the State.

Q.—It is the shareholders that pay. With regard to the super-tax, it means that the poor shareholder pays just as much as a rich shareholder pays.

A.—I quite understand that. There are poor shareholders and they pay some tax. But in practice the difficulty is not very great. They may lose a few annas. The State should be carried on; and would it not be difficult to approach every man? The inconvenience involved in the collection of the tax would perhaps be counterbalanced by this. Convenience is one ground of justification.

Q.—There is something to be said on that point. There was a similar tax in England called the Corporation Profits tax and that was abolished largely on the ground that it hit the poor and the rich alike. It hit the man who earned an income under Rs. 2,000 just as much as a man who earned an income above that. I was going to suggest that you should charge on the whole profits. You may have a poor company with rich shareholders and a rich company with poor shareholders.

A.—How can that be a factor in determining the tax to be levied on the profits?

Q.—It is the individual shareholder who bears it.

A.—He bears it only on the share he gets.

Q.—At the same rate as the rich man?

A.—So long as the profit is the same.

Q.—The argument which you are using, if carried to its logical conclusion, would mean that you should not graduate income-tax. The super-tax on companies falls with equal heaviness on the rich and the poor. Then why should you graduate income-tax?

A.—I certainly approve of graduation; but my point is this: so far as the companies in this province are concerned, they are very few in number and the majority of the shareholders are richer men. The poorer classes have no idea of purchasing shares in companies at all. Except perhaps in districts like Coimbatore, where there are cotton mills, on the average it is the richer classes that go in for these shares. For instance, I know of nobody in my district who has shares in the Imperial Bank.

The President. Q.—Anybody who has shares in the Rajahmundry cotton mills?

A.—Only recently.

Sir Percy Thompson. Q.—With regard to agricultural incomes, you think the present exemption ought to be continued. Subject to this, you tax the absentee landlord?

A.—Yes.

Q.—How exactly would you define 'absentee landlord'?

A.—One who does not normally reside in the district and actually cultivates himself. For instance I am one. I am practising in Madras as a High Court Vakil.

Q.—Would you treat him as an absentee landlord if he lived in the village?

A.—It is difficult. If his lands are too many and if he leases out some lands, I do not know whether we can adopt that principle.

Q.—You still tax him in the absence of permanent settlement.

A.—Yes. I gave some political reasons for that.

Q.—You say land is passing into the hands of capitalists and professional men?

A.—Yes.

Q.—I am not quite sure whether the tax on the incomes would very much prevent that.

A.—It is only because we get a good yield from land, that we go in for it. We do not deny that. I, for instance, have invested my earnings in land.

Q.—Is it because of the fact that there is no income-tax on agricultural incomes that you have done so?

A.—Possibly that idea is never entertained. For my part, I purchased the land bit by bit. Speaking purely from a personal point of view, I think there is justification in taxing these men.

Q.—You do not like the arrangement under which you pay the tax on the profits of the preceding year?

A.—No.

Q.—In your case, is it not a fact that the previous year when you made an income of Rs. 50,000, you did not pay on Rs. 50,000?

A.—My income-tax was deducted at the source. I took charge as Minister on the 1st November 1920. I paid income-tax that year. Then again, in 1921, in 1922 and in 1923, I paid it. Thus, I paid for four years for being in charge of the office for only three years.

Dr. Paranjpye. Q.—But only for a fraction in the first year and a fraction in the fourth year.

A.—If a man is taxed for what he has earned, whatever be the process, it is well and good. Let him not be made to pay more.

Sir Percy Thompson. Q.—You realize the difficulty: with regard to Government servants, you know what their income is and you can charge on the income earned during the year. With regard to profits from trade, you have to wait until the end of the year and that means you never get income-tax in the year in which it is earned.

A.—Then the two taxes must be distinct, and a separate charge should be levied on each.

Q.—You get the same thing even if you charge on the average of the three preceding years.

A.—Yes.

The President. Q.—Under Q. 26, you say, "I agree that every member of the community should pay some tax, the only condition being that he should be able to pay". But when you come to Q. 52, you dispute the accuracy of the assumption. Are the two statements in keeping with one another?

A.—It all depends upon the meaning you give to the word 'poorest.' If the poorest is unable to pay any tax at all, my two statements would be true. If he is capable of paying something, he will have to pay something.

Q.—You recommend a protective duty on imported salt?

A.—Yes.

Q.—And you think that the Bengal consumer would be patriotic enough to pay the duty?

A.—Yes.

Dr. Hyder. Q.—Why should not the Kistna and Godavari zamindars be patriotic enough to pay for the spread of education in the Ceded Districts?

A.—There is a lot of difference between the two. One is national, and the other is individual. You are speaking of the Kistna and Godavari districts. There is no analogy at all. You know what the Bengalis are. There are men there who can give up all their fortune and serve the country. Do you mean to say that for the sake of the nation, they would not be prepared to purchase the Indian salt in preference to the foreign salt?

The President. Q.—If they are patriotic enough, is it necessary to help them by putting on a duty?

A.—But it is the function of the State to protect its own industries and to see that they are not dumped with foreign articles wherever possible.

Dr. Hyder. Q.—They have never attempted the boycott of foreign salt.

A.—I do not know whether it was suggested to them. I have got much faith in Bengal. We want to supply the whole of India with our salt if we can.

The President. Q.—With regard to excise, you "do not admit that the policy would involve a large expenditure for its enforcement for any length of time"? Have you studied what had taken place in America?

A.—No.

Q.—May I give you the American figures? During 1919—23 the Americans have increased their staff from 5,223 to 21,275 and the cost of it has increased from Rs. 2,31,00,000 to Rs. 13,60,00,000; and yet the enforcement has been quite ineffective. They have seized property of the value of Rs. 3,00,45,000. The courts are so blocked with the cases that they cannot try them for years together. The sentences of imprisonment amounted to 2,781 years.

A.—The figures are appalling. But I think our conditions differ. This country has always prohibited drink in theory at least, from the earliest times.

Q.—What is the authority for that statement?

Dr. Hyder. Q.—Is it not laid down in the *shastras* that molten lead will be poured down the throat of the man who drinks?

A.—I heard something of the kind, though not in that way.

The President. Q.—Have you studied the book "Indian Problems" by Mr. S. M. Mitra? He says: "Wine was used in India from time immemorial. It was drunk and drunk freely at sacrificial feasts, and on noteworthy occasions the use of which was the chief feature at the *Soma* offering of the old Aryans, when Gods were honoured by bowls of the precious draught".

A.—May I meet that by another statement attributed to Shri Shankaracharya? Once he was taking wine, and his pupils who were observing the master taking it, also took to it. But on another day he took hot molten lead, and asked his pupils to do the same, but his pupils could not do that.

Q.—Again you know the famous passage in the *Mahabharata* which tells how at a picnic given by Arjuna wine flowed like water. In fact, no social gathering was complete without liquor. Krishna and Arjuna are described with eyes heavy with drink. The Yadavas in one battle took the field in such a state of intoxication that they slew one another instead of the enemy.

A.—In the same book there is a chapter which explains that the Yadavas died because they took wine.

Dr. Hyder. Q.—Are you prepared to say that all the Moghul Emperors were strict teetotalers?

A.—I remember at least a man like Akbar did not drink.

Q.—No, when he was leading his army he did drink, but when he began his philosophical career he became a saint and a better man.

A.—I must say that we drink much less than the European countries.

Q.—Would you please refer to the conclusions of the Bombay Excise Committee? It was certainly not in favour of drink. It is said there that "all the Moghul Emperors with a single exception perhaps of a devout Muslim like Aurangzeb were wine drinkers".

A.—I cannot accept that view.

Q.—You say in your younger days all the villages were sober?

A.—I should think so. Even now they are sober.

Q.—Have you not seen in villages toddy shops surrounded by villagers?

A.—I can't say that.

Q.—You agree that there is a good deal of toddy drinking at any rate?

A.—Yes.

Q.—You say, "When the manufacture of toddy liquor was prohibited and rum introduced in its place, it was very much apprehended that illicit manufacture of arrack from toddy would be difficult to be stopped". Is it not an extraordinary statement when you had about 30,000 prosecutions a year?

A.—That might be. I took, for instance, the figures during the last 25 years. I do not think in this century you have been able to control it.

Q.—The spirit has been available of any kind, but there has been only a change in taste.

A.—You are a better authority in it. My own difficulty has been to stop illicit manufacture, though it has been very limited from a short time.

Q.—You still consider people are very sober?

A.—I should think that they are comparatively sober.

Q.—Then where is the necessity for such drastic regulations as you propose?

A.—Because other influences are at work.

Q.—Do you observe any marked deterioration in the physique of the worker?

A.—I cannot tell you that. Perhaps some of the factory managers would be able to tell you. I should think it does affect the health.

Q.—I have heard from a very large employer of labour that the finest cooly is the toddy-drinking cooly.

A.—Perhaps he judges it by the work he extracts from them.

Q.—Generally speaking, one of the arguments in favour of prohibition is that you are going to get large revenues from the extra earnings of the people. If there is no physical deterioration, no increased earnings will be got by stopping drink?

A.—I believe there is deterioration.

Q.—How are you going to replace the revenue which you propose to abolish?

A.—It cannot be done in one year, but it ought to be a gradual process. In the second place, the resources that I have pointed out and the resources that you will be able to recommend should be able to meet this deficit.

Q.—Your proposals are succession duty, tax on tobacco and an employee tax?

A.—Yes, and the income-tax on agricultural income, provided the condition attached to the proposal is accepted.

Q.—If you are going to have permanent settlement, you would not get an increase?

A.—I do not say in the least there should be a deficit in the revenue which you would ordinarily get in the thirty years. You will manage to levy your income-tax in such a way as not to go below that amount but above that.

Q.—I do not think you would be prepared to say that there is going to be an increase in the return of land revenue by substituting permanent settlement *plus* income-tax for the temporary settlement.

A.—Certainly, I don't say that. There will be an increase, and there ought to be an increase by these periodical settlements. Provided you take away this liquor tax and you improve our society, we ought to be prepared to pay a little more through other sources.

Q.—Then most of the extra revenue would come in the shape of income-tax on permanently-settled zamindaris?

A.—Yes.

Q.—Your succession duty will be practically on the same people?

A.—Yes, on those who are able to pay.

Q.—Do you think it would be fair to impose both taxes upon the zamindar at once?

A.—Unquestionably it is fair. Is it fair for the zamindar to squander away the money as he likes, simply because he is the son of his father?

Q.—You do not think that it would result in the break-up of the large estates?

A.—Why should it? I do not think it could reach that point at all.

Q.—Is not that what happened in England, that the imposition of these heavy duties resulted in large estates breaking up?

A.—I must confess my ignorance of the English conditions.

Q.—Then you will have an employee tax. Again, it will hit the same class of man?

A.—I was thinking of the factories and mills of that kind.

Q.—How can you impose anything further than income-tax upon the factories and mills?

A.—Where is the difficulty? The cotton mills at Coimbatore get 200 or 300 per cent. Would there be anything wrong for them to pay?

Q.—The Bombay mills are not making anything now. There are plenty of mills, the value of whose shares has fallen by 200 per cent or so.

A.—Only when compared with the War rates. I thought Coimbatore paid 25 per cent last year and Madura paid the same figure.

Q.—Then you are going to put a tax on every employee?

A.—Of course, this must be taken with caution. I did not mean that tax should be prohibitive.

Q.—You have to find five crores of rupees?

A.—I must confess I have not calculated how much it would bring in to make up these five crores deficit from excise.

Q.—Do you think you will get even one crore of rupees?

A.—That only means you will have to devise other sources. I thought that taxation has not been equalized and the poorer class and the agricultural classes are being over-taxed and the richer people are not paying their quota.

Q.—It is for you to suggest the sources. Another tax you propose is on tobacco. Do you think that is a practicable tax?

A.—Why not. We have been collecting cesses on cotton, etc.

Q.—How would you levy a tax on tobacco?

A.—Something like the cotton cess which is levied as the stuff reaches the factories and gins: so also when tobacco passes from the hands of the producer you must tax it.

Q.—A very large part of it is not manufactured at all.

A.—With reference to this you have to catch it when it is with the dealer.

Dr. Paranjpye. Q.—It is a small trade with a limited number of people, is it not?

A.—Excuse me, if you go to a place like Polavaram and in the *lankas* of Godavari, you will find lots of merchants haunting these agriculturists' houses for tobacco. It is a big trade in these places.

The President. Q.—Even if you are going to tax the rich dealer, it would involve care and investigation of almost every acre. It would be very difficult?

A.—It ought not to be difficult with your rigorous system of village officers.

Q.—There are hundreds of thousands of acres of scattered cultivation.

A.—We want revenue and we find the tax is otherwise justifiable. Unless the difficulty is insuperable, I think it is worth trying.

Q.—Instead of trying to tax in that way, would it not be simpler to impose an acreage duty?

A.—Then it will be considered as a tax on the land. The earliest stage for taxing should be after it leaves the producer's hands.

Q.—You would have to ascertain from the ryot how many acres he had, what the produce was, how much he realised and then tax it.

A.—We can very well do the same as in the cotton cess.

Q.—Cotton must go to the gin, so there is no difficulty, but tobacco is not like that.

A.—Judging from my experience I can say that tobacco goes to many foreign countries. In a place like Polavaram this trade is on a very big scale. I think it ought not to be impossible to find out.

Q.—Do you think people would prefer paying a tax on tobacco to the paying of excise duty?

A.—I suppose the liquor drinker would prefer to have his drink.

Q.—You regard both as conventional luxuries, but one is slightly more harmful than the other?

A.—According to my conception drink is sinful.

Q.—If you are a Sikh, you will be committing a sin if you smoke. It is against their religion. But they can drink.

A.—I do not know that.

Sir Percy Thompson. Q.—You favour an export duty on lac on the ground that there is a good deal of monopoly in it?

A.—Yes.

Q.—Then you are in favour of levying export duty on fish, oil-cake and other manures? You think it more useful to keep them in the country?

A.—Yes.

Q.—How would you justify a duty on raw cotton that is not a monopoly?

A.—There are only three countries in the world producing cotton. I should like to see as much as possible of the cotton India produces converted into cloth in India.

Q.—You mean for export?

A.—Even for home consumption. We purchase 73 crores' worth of cloth, out of which 50 crores' worth comes from foreign countries, and most of it is made from cotton produced in this country.

Q.—Is it not easier to levy an import duty on the manufactured article? India does not produce as much cotton for export as America. India has no monopoly, and very little influence on the price.

A.—But let us leave alone America and England, and take the case of Japan; every year forward contracts are made for millions' worth of cotton. It goes to Japan and it comes back to our country as cloth.

Q.—There is no limit to the production of raw cotton. America could produce double the quantity.

A.—Even America's production has fallen.

Q.—I am suggesting that if you do put a tax on cotton, the result of your export duty would be to put up the price of the export cotton and so curtail production; the demand would still exist, and presumably the supply will come from America.

A.—Ordinarily speaking, India can consume a larger quantity of cotton than it is at present consuming. The export of a larger quantity of cotton than is necessary can be stopped by this tax.

Q.—Your import duty on cotton cloth is 11 per cent as against the excise duty of 3½ per cent. So there is a protective duty of 7½ per cent?

A.—Yes, Sir. You know that most of the Indians do not like the cotton excise, while some of us are prepared for a higher import duty.

The President. Q.—You ask, with regard to waste land newly brought under irrigation, if that newly irrigated land is not to become private property, is it proposed that it should be managed by the Government, and you say that it would lead to complications. I do not know if you have heard about the colonization experiments in Burma where they are treating themselves as absolute owners of the colony land and performing all the functions of the landlord.

A.—I do not know that whether those lands can be described as domain lands.

Q.—Is it not practically the same thing?

A.—Probably.

Dr. Hyder. Q.—Is the revenue that the different States derive in Europe from public domain on the increase or on the decrease?

A.—It is on the decrease. I think civilization is advancing and new systems of taxation and principles are followed. This kind of income is considered to be wrong.

The President. Q.—You say you can think of no powers of taxation which can be given to local bodies unless it be the power to levy an addition to the State income-tax. Isn't the profession tax practically that?

A.—A man is made to pay income-tax because he gets some income: profession tax is different from income-tax.

Q.—It is not quite the same, but it amounts practically to the same thing.

A.—Some graduation is allowed there, but the profession is not enough to justify the payment of a tax. You have no minimum limit: every man who takes to any profession is bound to pay it. I do not think they are the same.

Q.—Perhaps it is like the old license tax.

A.—It is something of the kind.

Q.—You say later on that numerous classes of people escape payment of local taxes. Which classes are they?

A.—Most of the professional men escape the profession tax, e.g., banks, railways, insurance companies, factories, mills, etc.

Q.—You can get at all those either through the profession tax or the companies tax.

A.—My contention is that this profession tax is a limited and small one; it is not adequate and the professions are capable of paying a little more.

Q.—Is it not within the power of the local boards to raise the rates?

A.—The maximum is fixed by statute.

Q.—How many have got to the maximum?

A.—The maximum itself is a very low figure.

Q.—They are all abolishing profession taxes because they find them troublesome to collect?

A.—I don't know, but if these local bodies really want new sources of revenue, they can get them.

Q.—You say that "the whole system of local taxation requires overhauling, and it is hoped that this Committee will undertake the task". Would you kindly indicate to us what we should do?

A.—I remember your speech as Finance Member, most of which was confined to the reform of local finances. I was thinking of that.

Q.—Your reply to Q. 113: you defend the limitation in the case of land tax on the grounds which we have been just discussing. What about the municipal house tax: why should you limit that?

A.—It has a certain capacity to bear; I think that stage has been reached.

Q.—When the rate in England goes up to 100 per cent and over of the rental value, do you think the capacity stage is reached in India?

A.—That depends upon various circumstances: what is the income of an Englishman, and what is that of an Indian?.

Q.—This is not a fixed tax.

A.—The capacity of a man to pay tax depends upon his income. Even the house tax will have a bearing on that. I think it will be hard to call on a poor man struggling for his existence to pay more than a certain fixed amount, even though his house is a fairly decent one.

Q.—If it is levied as a percentage of the value, that does make a difference in income.

A.—In actual practice, nothing of the kind is done. I was the president of a taluk board for some years, and I was in charge of twenty or thirty unions. My experience has been that if a house is estimated as worth Rs. 500, the tax is made at that figure, no other allowances being made.

Q.—You recommend a registration fee on marriages on a graded scale?

A.—Yes.

Q.—Do you mean that a larger fee should be paid for a second marriage?

A.—I meant the status of the family: a rich man ought to pay more and a poor man less. I support it only as a last resort.

Dr. Paranjpye. Q.—Would a rupee for each marriage be too much?

A.—It won't be in the case of the middle classes.

Q.—How much does the very poor spend on marriages?

A.—My rate would vary from 4 annas to Rs. 100.

Q.—It would be rather difficult to grade this marriage fee: who is to grade it?

A.—The local authorities: the local officers ought to know the income-tax they are paying, their status, etc., from which they can fix their capacity to pay this fee.

Q.—I will give you an illustration: lots of marriages are celebrated in Poona, though neither the bridegroom nor the bride belong to that place.

A.—They must be very poor people; judging from the circumstances of this country, I know that every man would like to marry his daughter in his own house.

Q.—If you have a priest, you can order a feast immediately.

A.—This practice does not obtain in Madras. I have never come across a man coming from the mofussil and performing his marriage in Madras.

The President. Q.—You say you pay a sufficient fee to the *purohits* for the evidence of the marriage: is any record kept of that?

A.—The object of the marriage procession is that all people should know that the marriage is taking place, and all are invited for the purpose of witnessing the marriage.

Dr. Hyder. Q.—Would there be any opposition on the part of the people if this fee were levied? Would they say that Government is interfering with one of their sacred rites?

A.—I do anticipate some little opposition, but I suppose that as time advances it will be all right.

Q.—You don't think that politically-minded people would make capital out of it to the detriment of Government?

A.—People who are so minded will take any chance to make capital, but I think that, ordinarily speaking, reasonable people can be expected to accept it.

The President. Q.—You object to a tax on patent medicines as a matter of health?

A.—I have also stated that the proceeds would be small.

Q.—Have you ever studied the publications of the British Medical Association in which they give analyses of all the most famous patent medicines? They show that these often have no medicine in them at all.

A.—I don't know whether it is quite fair: there are some medicines which are very good. I have known a medicine named 'Celerina' which comes from America. I have used it successfully in the case of some diseases. Drunkards would give up their drinks within three months. 'Cuticura ointment' also comes from America: I have used it very successfully.

Q.—I don't say some of them are not successful: but a great many of them are pure humbug.

A.—It is quite possible: a certain element of fraud is inevitable.

Dr. Paranjpye. Q.—If you now pay Rs. 2 for a patent medicine, you won't object to paying Rs. 2-4-0?

A.—Perhaps not. I would put it this way: these are coming to your hands, so that you may adjust these matters. I won't attach any importance to them.

Q.—You are in favour of taxing patent medicines, if necessary?

A.—Yes, if necessary. I am in favour of any tax, if it is unavoidable. It is a question of balancing the advantages and disadvantages and your needs. If the State does require a certain amount of money, it must get it.

The President. Q.—You object strongly to an excise duty on Indian-made cigarettes, why?

A.—I find that the import of cigarettes is enormously on the increase, and I do not see why foreign persons and foreign countries should be enriched at our expense. I know that a large quantity of tobacco from Guntur district goes to Germany.

Q.—Is it not a fact that Indian-made tobacco is unsuitable for manufacture of cigarettes and that Indian-made cigarettes are made out of imported tobacco?

A.—I know for a fact that enormous quantities of tobacco are exported from Guntur to Germany and there converted into cigarettes and they come back to India. The German company has now been taken up by a British company: they have invested about 7 lakhs of rupees in buildings in order to enable them to collect the tobacco; they have also advanced money to the cultivators.

Q.—In Bengal we had the evidence of the manager of one of the biggest cigarette companies: he said that his company were using imported tobacco for cigarettes.

A.—I know that our tobacco is going to Germany.

Q.—Have you studied the figures in our Questionnaire of the enormous increase in the import of unmanufactured tobacco?

A.—I am not sure if it is the cheap tobacco. It may be 'Virginia' tobacco, a high class tobacco.

Dr. Hyder. Q.—I think 'Red Lamps' and other cigarettes are made entirely out of Indian tobacco.

A.—As a matter of fact, it does not pay to use the foreign tobacco for cigarettes in this country. I should impress, if I may, on this Committee that there is need for stopping the import of cigarettes, and I was told that most of these foreign cigarettes contain more paper than tobacco. I was reading in a newspaper the other day that if the American newspapers published in a year were spread over the world, they would cover the globe, but half of them were used as covers for cigarettes.

The President. Q.—On the question of the division of revenues, you think it is for us to find balancing factors?

A.—If you can.

Dr. Paranjpye. Q.—You are against the division of the proceeds of any tax?

A.—I am against it. Supposing a tax is collected in a province and a portion is sent to the Imperial Government, those who are responsible for imposing the tax, i.e., the Legislative Council in Madras, would be responsible only for the collection of the tax, but not for its expenditure. They have no voice in the Assembly. In the Assembly, while the people's representatives vote for the expenditure, they have no voice in the collection of that portion. Suppose you collect 7 crores of rupees as land tax and you have to give 4 crores to the Government of India. We, in the Madras Legislative Council, are responsible for the collection of the 7 crores, but we are not responsible for the expenditure of the 4 crores that we give to the Government of India. Why I advocate complete separation of the resources of the Central and Provincial Governments is this: if the source of revenue is put under a divided head, one portion to the Government of India and another to Local Governments, the difficulty is that, while the local legislature is responsible for the collection of the entire money, it has no voice in the expenditure of that portion which goes to the Imperial Government, whereas those in the Assembly will be responsible only for the expenditure, because they can vote on the expenditure but they do not vote for the imposition.

Dr. Hyder. Q.—If the Finance Member wants to increase the rate of income-tax, I think he will have to submit his bill to the vote of the Assembly. He will have to submit any finance bill to the vote of the Assembly.

A.—The trouble is this: take the case of the land tax (the land tax in Madras is very high), a share of it will be a very good thing for the

Government of India. Even assuming that the receipts also form one of the subjects for discussion there, the members from Madras will be so few that they can be out-voted.

Q.—Would you prefer that the Central Government should impose its own rate and the Local Government its own rate and the collection to be left in the hands of either the one or the other?

A.—I am interested in the agency of collection: even as regards those who have to give their consent for the tax, I think that the Assembly does not represent their view as a whole. Very few are there, and inter-provincial jealousies and antagonisms might play their part. On the whole, I should think that it is more scientific to have separate resources.

The President. Q.—You say: "I am not unaware of the present difficulties. The demand of Bombay and Bengal for further revenues or for a share of the income-tax is as much justified as the claim of Madras, the United Provinces and the Punjab for the effacement of the provincial contributions. But these are necessary evils. Not that balancing factors cannot be discovered which might to some extent make up for this embarrassing element. For instance, if an excise duty or export duty is levied, say, on jute, and a portion of the revenue is given to Bengal, the rest going to the Central Government, a solution could have been arrived at".

A.—If you proceed, you will find that I gave it only as an exception.

Q.—You say: "If you are to set out in quest of balancing factors, I have no doubt you will discover many—and very useful and advantageous ones they will be. But then you cannot avoid complexity which is not desirable."

A.—And simplicity.

Q.—You can get a fairer system?

A.—It is only a choice of two evils.

22nd May 1925.

OOTACAMUND.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. S. K. SARMA, B.A., B.L., Pleader, Trichinopoly, was examined.

Written memorandum of Mr. Sarma.

ECONOMIC ENQUIRY AND INCIDENCE OF TAXATION.

An enquiry into the economic condition of the different strata of Indian society—if one such can be instituted—will be helpful for indicating the progress of deterioration of the people during two periods over which it may extend. But it is greatly to be doubted whether it can be held in a manner helpful to draw any conclusions therefrom as to the probable effects of a particular tax or tax system over the whole or any section of the community. There are ever so many factors which affect national life, and the conditions of its growth that even if one should succeed in measuring the material growth of the people in general and the different groups of workers that make them, it would scarcely be possible to appraise the real effect of taxation on them. If other things remained the same between two periods, we can judge of the effects of taxation on different groups of people by means of a census of production and consumption; but other things remain no more the same than the economic man in an island home exists outside text-books for other than illustrative purposes. An economic enquiry has been asked for since the days of Sir William Wedderburn, and the Famine Union that was started under his auspices, not so much for the purpose of measuring the incidence of taxation on each class of the community, as for finding out remedial measures for alleviating human suffering, as intense then as now, and leading them to higher plane of human existence. Taxation is only one of the factors that affect the material condition of the people: there are factors which are of a more vital character whose effects have got to be accounted for before we can assess its dynamic effects.

First and foremost among such factors which render impossible even an approximate calculation of the economic stability of the people—let alone the question of framing scientific methods of taxation thereon—is the fact that more than two-thirds of the population have to depend upon the land for their sustenance. Sir Fleetwood Wilson expressed an economic truism when he said that the Indian budget is only a gamble in rains. One has only to read the opening paragraphs of the annual financial statements, and they tell a singular tale of good rains reflected in "prosperity budgets" alternated with years of partial or extended failures of the monsoons resulting in falling revenues and increased taxation. A single monsoon stands between starvation and plenty. Assuming for the purposes of argument that the incidence of taxation falls with even oppressiveness upon all classes in a year of "normal prosperity" and is all that could be scientifically desired or devised, the failure of a monsoon will work severe havoc among the people in a cruelly uneven degree. It is not only that the failure of the crops raises the prices of agricultural commodities very high, but it is accompanied by loss of capital in the death of cattle and other live-stock

to an extent that it takes years to replace them; and as the collection of revenue does not respond to the success or failure of the crops, it takes a longer time for those who are more immediately affected to recover. Nor can one get a correct reading of the measure of destitution from the official gauge of tax returns. For example, the loss of revenue from the famine of 1899-1900 was about 3 crores; but the total loss to the country could scarcely be estimated from it. Lord Curzon's estimate was 15 crores in wheat and 10 crores in cotton, and an estimate in oil-seeds he could not make. Bombay alone lost twenty-three crores in her crops, and as to her loss in live-stock no estimate could be made. Beyond this, there was the Governmental expenditure in relief and loans of over 12 crores. It is obvious that under such conditions—and there is no knowing whether such conditions will repeat themselves and at what intervals—it is not possible to frame a scheme of taxation whose incidence will be less heavy than in a year when the heavens shower in plenty, for the very simple reason that one cannot calculate, much less anticipate in advance, the relative economic position during two periods.

Twenty years later the country had another visitation of a similar kind, and the drought of 1920-1921 can scarcely be said to be far behind the scarcity of 1899-1900 in its dismal effects. The acreage under cultivation fell by eighteen millions in food crops with a deterioration of fifteen million tons of produce. There were certainly more mouths to be fed in 1920 than in 1900. And yet there was no Mansion House Fund; no public demonstrations and collection of subscriptions; no very large number of relief measures started. Is it due to the economic stability of the people the increase in the staying power, their resourcefulness or are there other factors at work which, without accounting for any marked change in efficiency and recuperation, have materially altered the conditions that drove men to the relief camps two decades ago? Has the development of railways and other facilities for transportation anything to do in equalising prices and moving produce in times of scarcity to places of want and distress which were unavailable then? In the earlier year, the total mileage of railways open to traffic was 22,000 and odd, whereas in the later year it was a little over 37,000. Has this extension linked the country sufficiently enough for the easy internal transportation of necessary produce from the non-affected to the affected areas and mitigated suffering from want and privation? If it has done so, what has been the effect in normal years upon the material condition of the people across whose tracts the railways have been laid? What is the net economic effect of the importation of cheap foreign goods on the cottage industries, allowance of course being made for the profits made on the exportation of surplus marketable produce? If the exportation of surplus goods has been a real source of accretion of wealth, how is it that whereas the population of the country dependent on agriculture has increased by 20 millions during the last two decades, the actual acreage under cultivation has increased only by 40 millions? And this presumably of inferior variety. Or, to take another test, how is it that whereas during the decade 1901-1911 population increased from .689 per cent per year (which was the rate of increase between 1881-1901) to .86 per cent per year, it dropped to .234 per cent between the decade 1911-1921? The rate of increase in Germany was 1.7 per cent per year during the 40 years prior to the War. If we should set it down to the abnormal procreative proclivities of the Teuton, we may take a growth of one per cent per annum as normal. If so, the population of British India must have increased from 223.5 millions in 1901 to 245.5 millions in 1911. There was a shortage of three millions. Between 1911-1921, it must have increased from 242.7 millions to 267 millions. It rose only to 247 millions. There was a shortage again of 20 millions. Is it that so many were not born, or is it that the Malthusian checks of unadvertised hunger, disease, poverty and privation have claimed a heavy toll during all the years of fancied economic recuperation?

To raise such and kindred questions is to open a vista of economic enquiry which must tax the patience of good many ardent souls intent upon finding the truth, having previously submerged all political bias and prepossessions. But the situation is further complicated by the intervention of Government with the monetary standard which is playing havoc with the peaceful evolution of the country. In Western and Central Europe the War was an excuse for the respective Governments to tinker with their currency; but unfortunately a deliberate policy—or rather want of it—has been pursued in India for over a quarter of a century whose effects are all the more baneful

because they are unperceived. Just as Sir Fleetwood Wilson complained that the Indian budget was a gamble in rains, so some of his predecessors complained that it was a gamble in exchange, and convinced themselves that fixity of external exchange was more important to her finances than the stability of internal prices. So they managed to get the mints closed to the private coinage of silver and by a policy of deflation gave a fictitious value to the rupee. With that, one need not quarrel now. But having come to the conclusion that everything was wrong with the rupee, they should have continued paying their proper respects to the golden calf and put the yellow metal into circulation, which they did not. The result was a forced circulation of parchment and overvalued silver, with the concomitant result of an exaggerated price level. The hardship was realised by the Government who appointed a committee to go into the whole question; but the publication of Mr. Dutt's report was followed by the European conflict close on its heels. The hundred crores of rupee coinage that was to have heralded the passing of India from a silver to a gold standard in the ten years that preceded the American crisis of 1907 was sharply followed by double that amount during the five years of War. No wonder that while prices are falling in the United Kingdom, we are keeping to a record level; and none dare beat us there.

The mediate and immediate results of a ceaseless outpouring of printed parchments are ably summarised by Mr. J. M. Keynes in his recent "Tract on Monetary Reform"; but what we are concerned with here is the effect that unregulated issues of currency have upon the incidence of taxation. The first effect has been to increase it. The Government have been obliged to add their revenue to meet the increased cost of materials. They have to purchase stores both for the civil and military departments, and so far the purchases are made in India at an increased cost. These naturally add to the expenses of Government. The lower grades of the services cried for compensation; they were given some increment and their salaries are now generally raised. The higher grades have for the last few years been having their "bonuses" and the general tax-payer has now the satisfaction of a more costly, if not more efficient, overlord than he had before. It is not only the expenses of the Government have been raised; but the cost of production of every material has increased by higher wages, higher profits and higher interest paid to loans which increased taxation has absorbed from private savings. The railway fares have gone up and the cost of transport of goods. Those who have been living on fixed incomes and on investments of stocks, shares and securities have been particularly hit. Those who are so hit are generally the large body of middle class men who though comparatively fewer than those who work in the fields or in industries, are large enough to bear the brunt of taxation. The large profits made in the War and during the decade preceding it, have increased the income of a number of "profiteers"; some of whom appear to have been hit hard by the fall in prices in 1920 and 1921 which they did not bargain for. The anticipation of increased and increasing profits gave a stimulus to production which has everywhere resulted in an increase of wages both for the unskilled and skilled labour. It is not possible to say definitely whether the increase of wages has overstripped the increase of prices throughout the country; we can at best only refer to the tendency. Taking the index number of prices during the basic year 1890-94 as 100, agricultural prices rose in 1920 to over 250. Even if the price of labour has increased *pari passu*, which is greatly to be doubted, there is no denying the fact that over 170 millions of agricultural wage-earners could not have improved their condition, because none of them are in a position to save year in and year out. A general rise of prices, if accompanied by a general rise in wages, profits and interests, can improve the condition of none who cannot save; but it may make it hard for everyone in so far as he has to pay an increased tax. Those who are engaged in agriculture—and there is hardly an acre and a half per head distributed among them—manage just to keep their body and soul together; the yield from land does not usually lead to any surplus to the working family. It is only the few persons who are receivers of rent in kind who can profit out of their savings. If we leave out of account those who are engaged in trade, in the services and in industries—and these have to pay higher tax on their incomes and higher price for the commodities they consume—we have left but a small residue of landowners receiving their rent in kind who might be said to have benefited by the inflation of prices.

It appears to be necessary to refer to the uneven distribution of the incidence of taxation owing to the inflation of prices, because it seems to be held in certain quarters that there has been no general depreciation of

currency as the additional issues have been due to the demands of trade, and that the general rise of prices is not felt by the people as a whole, as it has not led to an increase in the real cost of administration. It is clear that there are yet some disciples of John Law even in this age who have no belief in the inflation of prices by over-issue of paper, as it is not reflected in the foreign exchanges. There is no need to refer here to the distinction between specific and general depreciation, but so far as the cost of administration is concerned it does not appear from an examination of figures that the burden has in any way been lessened. A table comparing the revenue from some of the principal sources is given below:—

Sources of Revenue.	1901-02 Rs. (000 omitted.)	1920-21. Rs. (000 omitted.)
Land Revenue	27,39,80	31,97,48
Provincial rates	1,55,77	91,21
Income-tax	2,05,40	22,19,28
Salt	8,90,90	6,76,45
Excise	6,11,50	20,43,65
Customs	5,74,95	31,89,85
Stamps	5,16,96	10,95,08
Registration	46,94	1,12,01
Railways	16,08,85	25,01,45
Irrigation	3,79,69	8,79,65
Total ..	77,30,76	1,60,06,14

Between these twenty years it is clear that the amount absorbed by the Government on these accounts has increased more than twice. As a matter of fact, the general level of prices during the same period has increased practically in the same proportion. The incidence, however, has fallen unevenly. So far as excise is concerned, it will only affect those who are habituated to intoxicating liquors and drugs; it will not fall on others, though the indirect effect on the community may be different. But the customs revenue shows that almost all people who in one way or another consume imported goods have been affected, the revenue having increased more than five and a half times. Stamps and registration fall upon those who have recourse to law courts or are concerned in the transfer of property. The falling off in the salt revenue is a distinct gain to every one, and the revenue from land has not kept pace with the general level of prices. As has been stated already, no definite conclusion can be drawn from it, as high prices can benefit only those who have surplus produce to bring to the market; and these must have gained at the expense of the landless people. If the latter pay income-tax, they are still more severely hit as the expansion of the income-tax revenue shows. Whereas the sum total of benefit to the community has been nothing, different communities have borne the incidence in a different manner, some slightly, many heavily, while a few have benefited by it.

The external exchanges also affect the incidence of taxation, though the Government have been at pains to correct it sometimes successfully and at other times unsuccessfully. The deflation of currency between 1893-1898 must have affected the incidence to the detriment of the debtor but for the amends the Government soon after made by forcing the pace of rupee circulation to an extent that could not be dreamt of before. After the commencement of the War, the exchanges began to rise owing to the heavy exports of war materials and the high prices secured by them abroad. Prices rose so high that even silver was affected by it, and in order to prevent the rupee becoming more valuable than its silver contents, the exchange was periodically corrected. Finally, on the recommendation of the Indian Currency and Exchange Committee, the rupee was sought to be linked with gold at the rate of 2*s.* in the expectation that it would stand at that level and in the belief that Indian prices necessitated such a high exchange. The only miscalculation was that internal prices responded to foreign prices which was not the case, as gold prices affected only those commodities that are the staple of international trade and not of mere internal commerce. The exchange fell sharply and it is now rising. It is not certain whether it will stand at 1*s.* 6*d.* or go down to 1*s.* 4*d.* Whatever it is, taxation based on one level of exchange will be upset when the exchange deviates from it. A practical effect is now seen in the bounty given by the Government to the steel industry which has been neutralised

by the higher exchange, and the tax-payer has got to bear extra taxation to protect it from "dumping". The incidence of internal taxation is thus changed by a rising exchange. There is no doubt some gain in our remittance transactions to England; but it has to be remembered that the effect of this gain is neutralised by the fewer rupees which the exporter will get on the goods he exports. Owing to our peculiar economic position we happen to be a debtor country, and recent policy has unfortunately tended to stiffen the tie of the bond-holder. We have raised loans in England at a ruinously expensive price, and the interest charged can only be paid by selling our goods at a cheaper price. The result is that the exporter pays the profits of the importer.

The object of the foregoing is to suggest that it is not possible to make any reasonably satisfactory estimate of the incidence of taxation, unless we account for these and similar factors which change the incidence as between class and class and possibly from year to year. Nor are there detailed materials for one to work upon even making allowances for these. To take the incidence of land tax, it is absolutely necessary to know first, the earnings of over a hundred and seventy millions of cultivators and field-labourers who work on the land, how much they retain for their labour, and how much they pay to the landlord by way of rent. Are these persons ordinarily in a position to have any surplus produce, which they can exchange for their necessaries of life, such as clothing which they may not produce? In ryotwari tracts and in places where there are land records, it might be possible for the village accountants to give an annual return of the number of acres cultivated by every tenant; but then there is the further question of the rent paid which can only be guessed. It will certainly be beyond the competence of the village accountant to collect the information, and, even if he does, it might be no better and no more reliable than the estimate of produce he supplies. Nor is there any method of calculating the rent annually reserved by the landlord except by rough guesses from registered lease-deeds where they are available; and as for permanently-settled areas, it is not possible to ascertain it at all. Even with reference to the rent-receivers, there may be a pretty large number whose rent is just enough to maintain their family. We have therefore to take account of the large landlords, including owners of permanently-settled tracts, tenants whose leasehold interests pay more than is necessary for family consumption, cultivating classes who till their own soil and produce just enough for their family consumption, and small owners who do not till their own soil, whose cultivating tenants produce just enough for both families. It is obvious that the land tax is paid by the consumer and that the large landholder does not pay a pie of it, nor the cultivating tenant who raises just enough to support his family and pay the rent. But the peasant proprietor, whether he cultivates the land himself or lets it on lease, is the person severely hit along with the large body of landless people. And till we know their proportion to the total population, it will be futile to guess the incidence of tax on them.

Nor is any effort at generalising as to the real incidence of other taxes likely to be more fruitful. We can postulate with reference to certain taxes. The salt tax, for example, falls undeniably upon every individual, so also the cotton duties. There cannot be any variation as to the consumption of salt between the rich and the poor; but there is wide scope for difference in the consumption of cotton, woollen and silk goods. It is sure to vary not only between class and class, but also between province and province and communities and communities. Perhaps, fashion is making its inroads nowhere more perceptibly than in wearing apparel. Apart from a general and a vague statement, which in many cases may be wide of the mark, that the costly piece-goods, silks and woollens are consumed by the more advanced communities, who may be earning a couple of thousands a year, one may not be sure if any sound or sensible statement can be made. Even with reference to a commodity such as sugar, you cannot predicate how the incidence falls on the various classes; for there are large masses of men who do not consume sugar at all, and there are others who must have it as a part of their dietary. Five dissenting members of the Indian Fiscal Commission say it is a luxury! The demand may be said to be unconnected with one's calling or resources. The poorest among the unskilled labourers in a town earning a wage of eight annas or ten per day may be seen to spend an anna over his cup of coffee or tea, whereas the village cultivator, who is more fortunately situated, knows no such delicacies. His quota to the sugar duty may be nil. Coffee and tea are slowly insinuating themselves into many households irrespective of class or wealth,

and those who may be presumed to be capable of consuming these beverages do not do so, while others do. Next to salt, petroleum may be said to be an article of universal consumption and the incidence of the duty falls on all classes; but the same cannot be said of tobacco. Many classes use tobacco in one form or another and many others do not; and it will be difficult to say on which class the duty falls. If we take the excise duties, apart from the statement, based upon *a priori* reasoning, that country liquor is largely consumed by the poorer classes, the labourers, artisans and field-workers, it cannot be stated what proportion of the rest consume foreign liquors or their locally-manufactured substitutes. Even so with reference to most commodities that are taxed. Of course, we can say on whom the duties on machinery, plant, motors, cycles and such things fall. But they are only exceptions that prove the rule that differentiation of classes cannot be made for assessing the incidence of taxation on each class.

Inferences from certain Heads of Revenue.

This is not to say that nothing can be postulated as to the incidence of taxation. The statistics already available can throw some light on the incidence of each tax, if not on particular classes, at least on the community as a whole. To take land tax, for example, it will be found that whereas in 1898-1899 the total revenue raised was 27½ crores, at a cost of 4 crores to collect it, the revenue rose to 31 crores in 1910-1911 and stood at the same level in 1920-1921, the cost of collecting the same sum rising to 5½ crores and 8 crores respectively. That it is to say, whereas the revenue rose by 4 crores, that sum has been bodily transferred to the tax-gatherers as price for collecting the same. In common parlance it would be called robbing Peter to pay Paul. There are only two inferences possible, either the expenditure was incurred in a hopelessly reckless manner or the maximum of productivity had been reached at the time of original assessment. One is unwilling to bring home to the Government the charge of recklessness, but it does violence to the accepted canons of taxation. It has to be remembered that a good slice of the land revenue is raised from permanently-settled tracts, and the increased cost of collection must be due to periodically assessed lands, which raises the proportion still higher. A tax may be said to be reasonable if the expenses of collection are less than 2 or 3 per cent. The cost of collecting the land revenue is 25 per cent.

Salt has been responsible for some acrimonious criticism of late, and a study of its statistics is not without its lessons. During the period 1882-1888 when the duty was Rs. 2 a maund, the increase of consumption per year was 668,000 maunds. Between 1889-1903 when the duty was raised to Rs. 2-8-0 the annual increase fell to 272,000 maunds. When the duty was restored to Rs. 2 in 1903 the rate of increase jumped up to the astounding figure of 1,270,000 maunds per annum. In 1905 the consumption was 39½ millions and when the duty was lowered by 25 per cent it rose by 4 millions in two years. Between 1907-1908 and 1920-1921 the rise was 9 millions and the revenue expanded from 5 crores to 6½ crores. The population meanwhile expanded only by 6 per cent. It follows that when the duty is low, and the incidence is slight, the consumption increases perceptibly; and when the tax is raised the consumption falls. For one thing, it gives a cogent answer to His Excellency Lord Reading, when, in certifying the Finance Bill of 1923, he said, "The economic arguments against the tax appear to stand on shadowy foundations....The mill-labourer is shown to spend approximately 56 per cent of his income on food and of this amount salt represents only two-fifths of 1 per cent. The increase of salt tax must have an infinitesimal effect at a period such as this." If a commodity whose consmption is only two-fifths of one per cent can show so sensitive a response to the variation of the duty in the manner it has done, no further proof is necessary as to the economic helplessness and destitution of the people.

We may next take sugar, another article of general consumption. It has already been stated that it is not possible to say on what classes the duty on it falls. But there are certain inferences that can be drawn from the import duties on it, as it is an article in which local production ought to meet all demands and allow a margin for export as well. The sugar-cane cultivation is of ancient origin and all local demand was being met from internal production. The import of bounty-fed sugar during the close of the last century caused alarm and led to the closing up of many refineries in the United Provinces and the area under cultivation shrank by 13 per cent. At the instance of Sir James Westland, countervailing duties were levied on bounty-fed sugar. They produced 94½ lakhs of revenue, and beyond that

did nothing to stimulate local production. The area under cultivation is practically stationary. Whereas independent estimate of yield was 1¼ ton per acre in the United Provinces in 1899, the estimate made on a more "scientific and careful basis", which Mr. Findlay Shirras claims for his, is less than a ton per acre for 1920-1921 and 1921-1922. The internal supply being the same for three decades, it is the foreign article that settles the local price. The customs duty on imported sugar was raised from 7½ per cent to 10 per cent in 1916, to 15 per cent in 1921 and to 25 per cent in 1922. Even when the duty was raised to 10 per cent, the revenue began to fall: it yielded 149 lakhs in 1917-1918; 169 lakhs in 1918-1919; 128 lakhs in 1919-1920; and 109 lakhs in 1920-1921. In 1921 when the revenue was raised to 15 per cent, it was expected to yield 235 lakhs, but as a matter of fact, it yielded 650 lakhs owing to the abnormal imports consequent on a fall in prices. The revenue was expected to yield another 25 lakhs in 1922, but it fell by 150 lakhs again owing to a further fall in prices. About one-fifth of the sugar consumed in the country is imported from abroad. The consumer not only pays the 25 per cent import duty, but practically a similar enhanced price on every ton of indigenous article whose production does not expand to reduce its price. The sugar-producers have a bounty without the possible risks of the monopolists to shoulder a part of the customs duty. For every rupee the Government raise, the consumer pays five.

The income-tax has taken the place of the land revenue which has now receded into the background. In 1898-1899, the total collections was less than two crores, but to-day it is about 18 crores. The minimum of exemption was Rs. 500 till 1903 when it was raised to Rs. 1,000. The normal increase per year then was only five lakhs of rupees. Between 1903 and 1915 the exemption limit and the rate of taxation were the same, but the normal increase in collections was eleven lakhs per year. In 1916 the rates were revised and they were expected to yield an additional income of Rs. 135 lakhs, and the super-tax levied next year was expected to bring in another Rs. 200 lakhs. But the receipts which were only Rs. 313 lakhs in 1915 rose to Rs. 1,126 lakhs in 1918. The exemption limit was raised to Rs. 2,000 in 1919, and it was expected to relieve 287,000 assessees out of 381,000 and cost a sum of Rs. 75 lakhs to the exchequer. But the calculations have all gone wrong. The total number of assessees now is nearly two and a half lakhs, and the tax has increased to eighteen crores. The constitution of the Central Board of Revenue and the formation of a separate establishment are said to be responsible for a more rigid collection, but they cannot explain the sudden accession of revenue, though the maximum seems to have been reached. The following table gives in lakhs of rupees the income during the period:—

Year.	Income-tax.	Super-tax.	Refunds.
1915–16	314	..	..
1916–17	566	..	..
1917–18	725	222	..
1918–19	845	319	..
1919–20	1,135	264	77
1920–21	1,396	636	128
1921–22	1,609	877	294
1922–23	1,532	724	442
1923–24 (Revised)	1,456	655	190

The table shows that 1921 was the year of maximum yield and since then there has been a drop. The explanation can only be sought for in the springing up of a class of "profiteers", the product of the War, who have made fortunes out of the misfortunes of the country. That the War profits have not diffused but have been concentrated in the hands of a few, is proved by the fact that the total number of assessees has increased only by a lakh and a half. Even so, the total number of people earning taxable income, allowing a family of five for every tax-payer, are only a million and a quarter out of a non-agricultural population of a hundred and twenty millions. About one per cent of those not supported by agriculture earn less than Rs. 35 a month.

The Function of Tax Revenue.

The first canon of taxation which it is needful to note is that public revenues are strictly limited to objects which ought not to be met from capital and which strictly lie within the purview of the State. As necessarily coming within the first restriction, is the formation of the Debt

Redemption Fund, whose primary object is the redemption or avoidance of debt; or, which is the same thing, the construction of railways. The scheme adumbrated last year by Sir Basil Blackett is now given effect to, and, if successful, will earn for him from posterity the title of a "Grand Redeemer" of debts. But it has in it the elements of failure which it is time is sufficiently foreseen. The scheme provides for creating a sinking fund so called of 4 crores every year together one-eightieth of the excess of the debt outstanding at the end of each year over that outstanding on the 31st of March 1923. Accordingly, provision is made this year for a sum of Rs. 4.78 crores from the public revenues; and as fresh loans are being taken up every year, the revenue contribution will proportionately increase. Two definite advantages are claimed to what Sir Basil Blackett calls a "scientific" system of debt retirement; and they are, firstly, the reduction of the amount that has to be annually borrowed, and, secondly, the confidence created in the minds of those whom the Government want to be their creditors, in respect of the security offered then, so that the rate of interest may be kept down. One important thing to note is that it is not a real sinking fund but a bogus one, whose object is not to retire a single pie of the subsisting debt, but to supplement the proceeds of loans to meet expenses duly debitable to capital account. The total debt now outstanding is Rs. 1,015.71 crores, and that sum will remain and continue to grow year after year. Only as new loans are raised each year, the capacity of the people to pay interest therein will be correspondingly reduced by having to pay in addition to the interest a proportionately increasing amount of tax, to keep pace with the growing capital expenditure—may be some years later when the craze for merry loan-mongering is satiated, the loan proceeds may fall off, and the revenue raised by the Blackett formula may become sufficient to meet the annual capital expenditure. Even then, why this fund is called the "Debt Redemption Fund", instead of being very properly called "Supplementary Capital Fund", is not clear and that should be its true nomenclature.

The scheme adumbrated with such ostentatious flourish, and which appears to have been blessed by many business members of the Council of State, is not a new one; it is only the old policy of utilising surpluses for capital expenditure in a new garb. Two criticisms against this policy may be quoted here and they are opposite. Sir Ernest Cable, representing the Bengal Chamber of Commerce, said: "Among the deducted items are included the annuity charges for the purchase of the old guaranteed lines, amounting to the large sum of £3,013,000. The payment of these charges from profits is another instance of that policy, the wisdom of which I ventured to question in my speech on last year's budget. I mean the policy of debiting capital expenditure to revenue. The Egyptian Government are, I know, aiding the development of Egypt by the same method. But, as Lord Cromer remarks in his Report for 1903, it is open to the objection that the present generation of tax-payers is bearing the burden of remunerative expenditure, a portion of which might be legitimately borne by posterity. Persistence in the policy seems to argue a certain want of faith in the continuance of the prosperity of India; and besides, my Lord, I do not see why we should liquidate the just liabilities of posterity". To this Sir Edward Baker, the Finance Member, replied: "I am in entire agreement with the Hon'ble Member that it is wasteful and unsound finance to construct, improve or purchase railways out of revenue, more especially since our railway property has become remunerative and imposes no burden upon anyone". All this was twenty years ago; but they have not lost weight. To impose high taxation to meet a portion of capital expenditure and appropriate it not only in a progressive scale but also the accruing surplus to capital expenditure may keep the interest low, but they argue a hectic rate of progress which may exhaust all national resources. A reduced level of taxation and a slower pace in material progress might perhaps conduce more to steadier development. The policy does not seem to fit in with the claim made by Sir Charles Innes that the Government of India are now in a position to raise loans on much easier terms than private agencies. The argument that the credit of the country must be raised by such means is fallacious, as Sir Ernest Cable pointed out, and it is not true either that it is low in the London or in the Indian money market.

The Debt Redemption Fund is not the only raid made by the Government on the public revenues. By a convention established between the Members of the Legislative Assembly and the Government, another important encroachment on the taxable capacity of the poor has been made since September last, by which, besides the creation of a railway reserve and a

depreciation fund, a general appropriation is to be annually made for the benefit of the public revenue. The general revenue will have a first charge on the net receipt of railways of one per cent on the capital at a charge of commercial lines (excluding capital contributed by companies and Indian States) at the end of penultimate financial year *plus* one-fifth of any surplus profits, remaining after payment of this fixed return. The balance of four-fifths will be transferred to a railway reserve; but if the amount available for transfer to the railway reserve exceeds in any year three crores of rupees, only two-thirds of the excess over three crores will be transferred to the railway reserve, and the remaining one-third will accrue to the general revenues. The purpose of the railway reserve is stated to be "to serve the payment of the annual contribution to general revenues: to provide, if necessary, for arrears of depreciation and for writing down and writing off capital; and to strengthen the financial position of railways in order that the services rendered to the public may be improved and rates may be reduced". Sir Charles Innes pointed out in the course of his budget speech that a reduction of half of a pie per mile in the rates for third-class passengers will eat away four and a half crores; and if so, how the rates can be reduced by the reserve passes one's understanding. To levy high rates to create the reserve in order that the rates may be lowered out of that reserve looks like a piece of financial jugglery. That it may be used for "writing down" and "writing off" capital goes without saying. And when there is an annual borrowing for improving existing lines and constructing new lines, the necessity for a reserve to "strengthen the financial position of railways", does not carry conviction. It is clear on the contrary that it is a *quid pro quo* to the Government for the generous concession which they have made to the public revenues out of the railway proceeds. Nationalisation of railways has begun on principles which are the reverse of sound and economic administration.

The memories of the Members of the Legislative Assembly who voted for this convention must have been exceedingly short; otherwise it is impossible to conceive how they forgot that these reserves have an unhappy knack of lending themselves for improper uses. The history of the Famine Insurance Fund, which one fine morning was found to have been eaten away by the Afghan wolf, is not an ancient one; nor the misapplication of the Gold Standard Reserve, which, created for the purpose of supporting exchange, supports Throgmortan Street instead. What the future will have in store for this railway reserve need not be guessed; but there is no doubt that the principle of creating out of railway taxation a fund for the reserve and also for general revenues, deserves closer examination than has been accorded to it by the conventionists. Sir Basil Blackett declared with a sigh of relief that the tax-payer is now assured of a regular and growing contribution to the revenues from his investment in railways; but the investor gets his interest from the traffic returns. Should the cost of internal transport be kept high in order that the general tax-payer might have his relief? The relief so given this year is a little over five and a half crores; and there will besides be a reserve of seven and a quarter crores by the end of next year. If the railways had just paid their way, there would not have been surplus which is now the apple of so much provincial discord. It is taxing a portion of the community for the benefit of the larger public, and when it is realised that the commodities whose transport charges are so raised, and the men whose fares are kept so high are least capable of bearing the burden, one can easily imagine how unjust is this subvention from the public utility service to the relief of taxation. And as the subvention must increase with the capital at charge, the railways will become a growing source of tax revenue, instead of being a cheap means of internal transportation. Although railway finance is separated from general budget, it is needful to enter a caveat against the indirect imposition of taxation on a section of the community who use the railways for the general benefit of the whole.

More important, however, are expenses relating to what in vulgar parlance are called nation-building purposes. The abandonment of the doctrine of *laissez faire* in the United Kingdom is now followed by a reaction in favour of State-management of whatever till recently has been the special province of individual effort. The socialist cry of nationalisation of land, coals, mines and railways is finding a constant echo in this country, and even if we have not begun with old age pensions and compulsory insurance, we have begun with State-run banks which are to relieve agricultural indebtedness on the basis of a 9 per cent loan. Proposals are now and then made to carry not merely large scale production on a co-operative basis, but even the tilling of

the soil by such means. The individual is to produce, distribute and consume on co-operative principles. Life under such conditions would be one of Arcadian simplicity; and when such theories are urged as measures of practical application, the financier is bound to look at the cost. Already, the claims of nation-building measures are pressed in a manner calculated to make a heavy draft upon the meagre resources of the tax-payer. Ministers are now in diligent quest of industries which decline to be spoonfed by departmental doles. They will not sprout even under the happy atmosphere of sympathetic officialdom; they seem to shrink at the waste of public money that keeps a number of high-paid gentlemen in idle dismay. A tariff board is now actively at work dispensing charities to patriotic investors who have been getting a paltry 8 per cent dividend out of the abundance of the toiling poor. It threatens to remain as a standing invitation to similar sufferers to apply for immediate succour. We have schemes for universal education and compulsory education just hung up for want of funds now eaten up by under-paid ministers and their band of enthusiastic officers of the Education Department. If we shall have scattered throughout the length and breadth of the country a number of dispensaries, we shall have brought to the peasant, the mainstay of the country, health, wealth and education—on approved western lines.

Federal Finance.

In view of our commitments on projects of this nature, it becomes absolutely necessary to consider the financial machinery to raise the necessary revenue and meet the expenditure in proper proportion. It is therefore very proper of the Committee to have raised the question of federal finance and have also attempted to place in their *questionnaire* a summary as to the working of that system in other countries. Sir Basil Blackett stated last year that few persons have begun to realise the enormous difference that the Reforms Act had made in the matter of public revenues. The separation of the central from provincial revenues, with the corresponding separation of central from provincial expenditure, has created a situation full of complexities, not merely in the matter of inter-provincial adjustment of accounts, but in the liabilities of the tax-payer. The federal system has broken down in every foreign country in that separate water-tight sources of revenue could not be earmarked for federal as distinguished from State or even local purposes. The general theory and custom based upon it, that the indirect taxes must be set apart as a preserve of federal authorities, while direct taxes on land and incomes must be left to States, has been given up; and in the United States and Switzerland, the federal governments have begun to supplement their sources of revenue by direct taxes. So that people who are fond of maintaining inter-statal independence and autonomy have to be content with paying double taxation on the same source, one to meet federal expenditure, and another to meet the expenditure of the States. Experience has shown them that it is not possible to allot distinct sources of revenue to the confederation and the constituent States, and it is arguable that if the States want to secure their political existence, they must be prepared to sacrifice their financial independence. Elsewhere the confederation has been formed more or less out of a conglomeration of various political entities exercising independent sovereign powers within themselves, and has been the result of accident or design. It is not surprising, therefore, that though the same source is taxed twice over, they put up with it in view of the maintenance of the larger interests of inter-statal independence. Even as between State and local taxation there has been considerable friction, want of uniformity, evasion and failure, and in the United States especially, a satisfactory scheme has not been evolved yet.

Fortunately for this country, we are not fettered by historical antecedents: it is possible to write a fiscal system on a clean slate. Even the evolution of the major provinces has been but a few years old, and the exercise of strict control by the Central Government as the supreme head both on fiscal matters and in matters of administrative detail has preserved a unity despite distant separatist rumbles. Those who have been advocating separatism in finance have subordinated it to the maintenance of the political unity and integrity of the country. If the necessary implications of separatist finance are widely understood and appreciated, it may be doubted if the movement for provincial home rule would gain much strength. For few even among the ardent advocates of provincial independence are anxious to purchase it at the expense of the economic unity of the country. For political purposes and economic purposes they would require the country

to be undivided and solid. It is more as a matter of administrative convenience than that of advantageous development of independent economic units, that Provincial Governments have been constituted and run. And if the various provinces had equal facilities for development into such economic units, autonomous growth may be welcomed and fostered. But geographically and geologically, the country is a continent unequally endowed, and separatism can only lead to progress here, stunted growth there and deterioration elsewhere. There will be no uniformity, and division can only engender interprovincial jealousies, animosities and recriminations. The clamant echoes of vested interests in certain fiscal matters are already becoming louder and the debates in the Legislative Assemblies over provincial contributions during the last three years show that once people begin to taste the full fruits of financial autonomy, we shall have a Babel raised against provincial tyranny and provincial inequality, not only in the matter of incidence of provincial taxation, but also of imperial taxation. A fiscal system which will not offend against the ability principle cannot be evolved to the satisfaction of the people, unless there is an uniform measure of taxation, which will have due regard to the comparative fiscal needs and resources, especially among autonomous provinces unequally endowed by nature or developed by human agencies.

Difficulties naturally arise as to the proportion of federal expenditure each province ought to bear. It is the imperial expenditure that will have to decide the imperial revenues. If certain articles of universal consumption and if the customs duties were to be the sole sources of federal revenue, the burden of expenditure on the various provinces may be brushed aside. Although the provinces may not bear the incidence of these duties equally, it can be argued that a truly scientific allotment cannot be made and that the chief concern of the Government is only to avoid discrimination. Even though plausible, a similar argument cannot hold in the case of income-tax or, for example, inheritance tax, if it is introduced, inasmuch as a province might pay the income-tax to the imperial revenues to a disproportionately greater extent than others. Bombay and Bengal will pay a heavier sum than Madras or the Punjab or the United Provinces for the maintenance of the Army or carrying on Federal administration. There is absolutely no reason why they should. As the number of people who pay income-tax is limited, it would follow that provinces which have fewer assessees will escape paying their just share of the cost of defence, whereas provinces whose citizens have by their enterprise and skill contributed to the economic development of the country and to the addition of national resources will have to pay a greater amount. To provincialise income-tax would mean to bloat the balances of the more advanced provinces, and that, besides, cannot be done without finding some other source of federal revenue. The provincialisation of land revenue, while it has the effect of exempting the large mass of the people from paying their fair share of imperial burdens, has the effect of discriminating between the subjects of various provinces. Where land has long since reached the stage of maximum impoverishment, it can yield but a feeble increase in revenue and where extensive areas have been newly brought under the plough by irrigation facilities, they can contribute a growing revenue and relieve the people from those additional tax-burdens to which the more settled provinces will be prone. Incidence of taxation will vary among the different classes and peoples in the different provinces, and as between different provinces the character of expenditure will also vary, benefiting some classes in one, and other classes in others.

The principal source of imperial revenue, leaving customs and salt, is the tax on incomes. The total number of assessees is just a little under 240,000, out of whom more than a fourth or nearly 68,000 are from Bombay. Bengal has about 40,000 assessees, and Madras a little less. The Punjab and the United Provinces have 25,000 each. As for the sums paid by them, the disproportion is greater. According to the budget estimates for 1923-24, Madras pays 20 millions; Bengal 48 millions; Bombay 60 millions; the United Provinces 10 millions; the Punjab 12 millions and Burma about 19 millions. During the last two years, however, Bengal has begun to outstrip Bombay. The Budget for 1924-25 shows an income of 68 millions for Bengal, and 44 millions for Bombay, while the share of Madras fell to 17 millions. It follows that the contribution, though it may be justified on the ability principle, relieves to the extent that larger sums are raised, the burden on those who pay other taxes. It may be stated broadly that the imperial burden on land in Bombay will be lighter than on land in Madras. If the provincial contributions were to cease and the tax on incomes were

to form a permanent source of imperial revenue, that on land remaining a provincial head, the inequality of imperial burden on the different provinces will widen, and the gap will become unbridged if the provinces are to supplement their sources of revenue by, it may be, an addition to the land revenue. That the inequality is already working a hardship is seen from a study of the provincial balance sheets. Taking the year 1921-22, the first year of Reformed Councils, Bombay raised by direct taxes Rs. 66 millions, of which land contributed Rs. 54 millions, and incomes Rs. 11 millions; and by indirect taxes Rs. 52 millions, of which excise contributed Rs. 34 millions, stamp and registration the balance. The total was Rs. 118 millions. In the same year Madras paid Rs. 60 millions in land revenue and about Rs. 4 millions on incomes or Rs. 64 millions in direct taxation; and paid a further Rs. 71 millions in indirect taxes, of which the contribution from excise was Rs. 48 millions, stamps and registration accounting for the rest. The sum raised was Rs. 135 millions. The third major province, Bengal, collected a revenue of only Rs. 87 millions, of which land paid Rs. 30 millions, income Rs. 9 millions and excise Rs. 18 millions. Out of this revenue Bombay paid Rs. 29 millions for law and order, met its general administration charges of Rs. 12 millions, and the cost of collection Rs. 20 millions. After paying debt charges, it spent on social and public undertakings a sum of Rs. 68 millions. Madras at the same time had its law and order maintained at a cost of Rs. 32 millions, and, after paying a similar sum to collect its revenue, spent Rs. 13 millions for general administration and could pay for social and public undertakings only Rs. 10 millions less than Bombay. Although for its total revenue, the proportion paid by Bengal for law and order was greater, it amounted to but Rs. 33 millions. The cost of collecting the revenues was Rs. 18 millions, and general administration charges was Rs. 11 millions. Its secondary expenditure was the lowest, being but Rs. 45 millions.

These figures disclose no justifiable principle of provincial taxation. That Bengal with a population of 46 millions should raise but a revenue of Rs. 87 millions, whereas Madras with a population of 42 millions should raise Rs. 137 millions, and Bombay with a population of a little less than 20 millions should raise Rs. 118 millions, shows considerable disparity in the incidence. Nor does it appear that the inequality is corrected by the imperial levy; on the contrary it appears to be only emphasised. Reference has already been made to the fact that on incomes Madras pays a third of what Bombay pays, and Bengal has now begun to pay a little more than Bombay. It is not possible to believe the customs sufficiently off-set the discrepancy. What is true of the major provinces is true of the minor provinces in the main. Inequality of this kind can only be accentuated, if, with the same groups of provincial and imperial heads of expenditure, the same principles of taxation are followed. Nor can fresh heads of expenditure be transferred to those provinces where the incidence of provincial taxation is low in order that the level of both may be raised. It cannot be done for the very simple reason that the hitherto most-favoured provinces will at once start a cry and since they happen to be endowed with powerful lungs, they are sure to win. We find them winning all along the line. And even if such an arrangement is made, the burden of imperial taxation will at the same time be reduced. If the object of taxation is to raise the revenue on some equitable basis and not to rectify the inequalities of distribution as between province and province, no separation into water-tight compartments between provincial and imperial burdens and provincial and imperial expenses can be possible. There is little chance of even accidence coming to our help.

One justification for separation of federal from provincial expenditure can possibly be the insignificant character of the former compared with the latter. Where federal expenses include such major and ever-growing heads like the army, public debt and general administration consuming so much as 65 per cent, leaving but 35 per cent to be divided between provincial and local purposes in the ratio of two to one, the inequalities of the incidence to which we have adverted assume greater importance. The federal government will gradually lose all concern and interest in those objects which more immediately affect the economic well-being of the people and rest content with having handed over the charge of it to the provincial administrations which are in closer touch with the people. All sense of proportion will naturally be lost in its scale of expenditure and, what is worse, it is likely to turn round and say that the provinces are responsible for internal development as far as taxation can help it. It may be taken as positive

and certain that more money will be spent on unproductive, though necessary, objects than hitherto by the Imperial Government, as it is not expected to take a true perspective of the tax raised from the people and the return made to them thereout. Nor is it unnatural. With moneys earmarked for federal expenses, there is no reason why from federal revenues subventions ought to be made to state expenditure. And if once such subventions are to be given, on what principles are they to be made? The history of provincial assignments does not promise for it a more successful future, and a return to it can only provoke inter-provincial rivalry. There is no true measure of provincial needs, and any amount can be spent by any province if only the money is available. A basis of distribution satisfactory to the provinces cannot be secured. Rather than start again fresh agitation for grants, the Federal Government will rather exclaim, "hands off". The provinces having obtained fiscal autonomy, ought to adjust their expenditure to their revenues or raise more by fresh taxation if they want, will be the persistent reply. A finance minister who is constantly reminded of the proportion which he annually spends, say, on agriculture and the army, and feels compunction at the disparity, will have the moral pressure of it removed, once he ceases to look at the agricultural grant but has only the army bill to pay. That will be the worst of separatist finance in a dependency like ours.

In the view that has been set out above, it is clear that none of the plans adumbrated by Seligman, whether individually or collectively, can be expected to effect even a theoretically correct distribution of taxes between Federal and State Governments. Whether the tax is assessed by local authorities with addition for the use of Central Government or by Central Government with additions for local purposes, the principle of autonomy goes, and that is the essence of federal finance. The separation of the sources of revenue is found to work unevenly. Assignments and subventions, as has been stated above, and as the history of provincial assignments since the days of Lord Mayo, shows, cannot give satisfaction. The character of the revenues points to the fact that a central administration is capable of taking a more approximate estimate of the fiscal needs, requirements and capacities of the country as a whole than a number of separate administrations. Experience has shown in other countries the need for customs and incomes being managed by a Central Government, in order that there may be no occasion for discrimination. The same must be said of the excise on salt. With reference to the present provincial heads of revenue, the obviously unequal levy on land in the different provinces is a most oppressive and vexatious feature of the fiscal system, and the importance of equalising the incidence in any attempt at reforming the basic principles of taxation is called for both on principles of fiscal expediency and on the broader principles of moral obligation which every civilised State owes to its subjects. It is a tax which vitally affects the teeming millions and the inequalities of whose incidence has been so sanctified by usage as to blunt the moral instincts of those who should have been foremost in removing them. If the suggestion made below to tax higher agricultural incomes is adopted, an amalgamated staff of the revenue and income-tax departments will have to administer it, and obviously it is better as an imperial head. The provincialisation of stamps has already begun to be worked unequally and the recent amendments of the Stamp and Court-fees Acts do not disclose any true appreciation on the part of the legislators of the place of fees in the fiscal system. To tax justice or commerce for revenue purposes is to show a remarkable contempt for both. The last important head of provincial revenue is excise duties on liquor, country spirits, etc. As the excise is both a tax and an instrument of social and moral reclamation, it would certainly be better that the Central Government is in charge of it, so that with the experience gained in the working of it in different localities and among different classes, the utmost advantage may be gained both to the State and its subjects. It is dealt with in greater detail elsewhere. There does not appear to be any source which might be exclusively administered by the provinces with advantage to the exchequer or to the tax-payer.

There is no gainsaying the fact that the restoration of a rigid unitary State is opposed to the general prevailing political demand for provincial autonomy with independent powers of taxation. If a federal system is necessarily the best form of Government, it may be the general tax-payer may have to put up with some measure of fiscal inequalities. It does not appear that conditions for a federal system are existent or any intelligent exposition has been made anywhere as to the comparative merits and demerits

of a Federal *versus* Unitary State. The growing demand for division of provinces on linguistic basis, or on a religious basis so as to minimise the Hindu-Mussalman problem, points to a striking divergence from those economic ties, facilities and resources which alone can perhaps be a rational basis for the formation of administrative units. The condition precedent for political division is the confidence of the people to work those institutions with fairness and equality; and where there is a general distrust of each other, it would be folly to remove those forces which have been at work in welding the heterogeneous mass into one homogeneous whole. The existence of a centralised government is one of the most potent instruments that has so welded the people of this country. The process is not yet complete. The premature formation of independent units out of what were mere administrative agencies to carry on the behests of a strong Central Government, has been responsible for the fissures which have been driven into a people struggling to be united. Communal feuds and religious feuds, where they are not petty or personal, are the outward manifestations of the fear of the opportunities which provincial home rule will give the majority communities to tyrannise over the minor ones. The introduction by Sir H. S. Gour of a Religious Endowmens Bill in the Legislative Assembly, with the necessarily legitimate implication, based upon the experience of the Madras Bill, that the provinces cannot be trusted to legislate on the lines of least resistence even on a matter in which Hindu feeling may be expected to be united, is a melancholy confession that five years of provincial home rule has only taught the lesson of our unfitness for it and that on one matter at least it must give way to central legislation. One may be pardoned for venturing the apprehension that provincial autonomy may only prove an instrument in employing the brute force of majority to accentuate fiscal inequalities by so modifying the burden of taxation as to hurt particular classes and communities and benefit others.

The Classification of Taxes.

Before entering into the various sources of taxation, it may perhaps be necessary to say a word or two about the classification of taxes and their relative importance in the fiscal system. Many attempts have been made by able financiers to divide them into a number of groups, even to the extent of preferring the one to the other or of omitting some from the list altogether. For example, the commercial services are held by some to be outside the scope of taxation. If so, the revenue derived from posts, telegraphs and railways ought to be excluded from the category of taxation. Even the water cess will then have to go. Extending the same principle a little further, fees have no place in any tax system. The duty on stamps, whether used in commerce or in the administration of justice, must be regarded as fees which are not taxation proper. Again, there is a conflict between the comparative merits of direct and indirect taxes, or what Seligman has called personal taxes, and real or specific taxes. Indirect taxation has long been in vogue; and direct taxation, especially on incomes, is of recent origin. The large increase in revenue which direct taxation has brought to the exchequer since the War has emboldened financiers to depend more upon it than upon indirect methods which add to the cost of living much to the chagrin of the tax-payer and the embarrassment of the tax-gatherer. It is completely forgotten that the apparent increase is not likely to last long and will have to be considerably moderated down when stabilization of prices takes place with the restoration of a stable monetary standard. Anyhow, the various conflicting views about the sources of taxation will have to be duly noted in any attempt to find out if the scheme of taxation is equitable and in accordance with economic principles. There is besides a century-old conflict whether land revenue is a tax or rent, and in attempts made by certain critics to assess the incidence of taxation, the land revenue is entirely left out of count.

Strictly speaking, fees, commercial services and even land revenue will have to be omitted from taxation proper, if the collections under these heads were made according to well-recognized principles. But unfortunately all these have developed into taxes proper in their administration. Neither the duty on general stamps, nor the court-fees on judicial stamps, nor the fees for registration fulfil the function of fees proper. What distinguishes a fee from a tax is, whereas the latter is a general contribution for general purposes, the former is a special payment for special services rendered by public agents as compensation therefor. Although the State by its power of compulsion obliges the individual to resort to public agencies and fixes arbitrarily

the payment made therefor, as a rule, says the German writer, K. T. Eheberg, the charges should be no higher than is necessary to meet the average cost of running the office concerned, though in particular cases the fee may be above or below the average level. The public agencies or institutions exist for public ends, and the fee is paid by the individual who resorts to them for the special service so rendered to him. The paramount importance of maintaining these institutions and agencies, whether the citizen resorts to them or not, is the reason for not recovering the entire charge from him or, at all events, not more than their maintenance charges. The character of the fee is admittedly changed in this country. The principal item, stamps, is a provincial source of revenue, and it yields about twelve crores of rupees. The stamps are a tax on transactions and on judicial proceedings, and they are levied and increased as such. Their incidence has been heavy, and they have had a marked effect on the economic condition of the people. The high level of stamp duty on transfers of property has had the effect of adding to the burden of the borrower or the vendor who usually pays the full amount, and though it might not have restrained transfers, it has in many cases led to undervaluations to escape the onerous character of it. The increase in the court-fees, has, if possible, acted as a deterrent in dissuading people from resort to law courts, which cannot and ought not to be the policy of any settled Government. The heavy cost of litigation is one of the prime causes of the economic deterioration and indebtedness of the people. It is a wholesome policy of civilised States to make the administration of justice as cheap as possible, as it is the one bed-rock upon which human institutions rest. Resort to law seldom reflects ability to pay: in most cases it is a regretted necessity, regretted both by the plaintiff and the defendant. By taxing it, you shut the doors of the court-house to all but the rich. Its effect can only be to rob the faith of the people in the administration of justice—not very high even now—also to develop a sense of wrong-doing among the rich who can snap their fingers at those who cannot assert their rights without ruining themselves. Bentham was not far wrong in his interdict of taxes raised from litigants either in the shape of stamps or court-fees, nor Hobson when he condemned duties on deeds of transfer. To keep them within the limits of fees, they must be so reduced as to make the receipts just enough to run those agencies whose services are invoked by the citizens.

Taking commercial services, post and telegraphs are naturally the most successful of the public industries in which Governments everywhere have shown a special aptitude. From the very nature of things they are likely to develop into monopolies with a monopoly price on them. But the policy of using these sources of revenue as a means of taxation is now outgrown, though it may be very difficult to avoid the aim of business profits developing into a tax. In the United Kingdom and in the continental countries of Europe, the aim is to secure only business profits, and a small margin over expenditure is budgeted for. A similar principle was also aimed by the Government of India till recently, and owing to the financial stress there has been a deviation from it. The abolition of the pice post-card and the half-anna postage letter shows a tendency to do small business at high rates in preference to a large business at low charges. It is needless to enquire into the financial results of such a policy. That it is not called for in the interests of the public is not denied even by those who justify the increase on the analogy of the penny postage in the United Kingdom. Sir Malcolm Hailey regretted the necessity for putting an end to the pice post-card which had a sentimental background and also the half-anna postage for letters. He justified it solely on the ground of financial necessity. The telegraphs, he said, more than paid their way, which meant that the charges are being levied on the principle of what the business can bear. It is possible that with lower charges larger business might be done. In the combined working of posts and telegraphs Sir Malcolm Hailey dectected loss and that had to be made good by raising the postal rates. The annual surplus from these services is under two crores in the average; but according to the statement made this year by Sir Basil Blackett, on a principle of strict commercial accounting there is likely to be a small loss. Within the strict economy coupled with low rates, the receipts might be made to approximate to the cost principle; and that is the policy to be aimed at. The advantages of the cost principle as against the profits principle, as stated by an American writer, are first that it takes away the uncertainty as to the result to be striven for; and second that it furnishes a tangible basis on which the rates are likely to be computed with due regard to the public interest. There is no getting over the fact that the profit principle has resulted rather in

consulting the interests of the services, if not of the lower, but certainly of the higher ranks. An element of tax is introduced in what is purely a mercantile project.

The most important service, the railways, is now worked in the country on neither the costs nor the profits principle. It is mainly a source of taxation. It was a source of taxation when it showed year after year only a deficit balance, and it has also become a source of taxation now that it yields a good surplus. The general tax-payer paid the guaranteed interest with a deficit budget and he now pays in high rates and fares for the annual surplus levied on the principle of what the business can bear. The business opportunism which converted the Swiss railways into potent instruments for the economic weal of the confederation has no place in the working of Indian railways, and they are run on principles which run counter to the legitimate interests of the people. Since the railways began to turn the tide, they have been the principal source of income to make good revenue deficits, and when these overstripped the railway receipts, there was a further imposition of increased fares and rates. If the Indian railways had been worked on the principle of commercial profits, the budget would have been equalised by additional taxation or curtailment of expenditure. As it is, there is a high and unjustifiable strain on the movement of goods and men which has retarded internal commerce and increased everywhere the cost of living. The recent separation of the railway finance from the revenue accounts might bring home to the people the extent to which the tax on transit has relieved the pressure of taxation on other heads. For the current year the relief so given is about five crores. But it can do no permanent good unless the railway system is going to be worked on pure business lines without the monopolist charge for the service. The aim which the Swiss Federal Council sought to achieve by taking over the ownership of the railway system, and the success that it has met so far, indicate how successfully the national aim can be accomplished even in this country, if the State undertook its control and managed it with a similar end in view. Apart from the appeal to national pride which insists, as it did in the Swiss Federal Council, upon the popular management of those affairs which are of prime importance to the safety and well-being of the commonwealth, the case for nationalisation is founded upon sober calculations of lower rates, due facilities for the development of internal and external commerce, improved conditions for railway employees especially of the lower grade, and of cheaper management generally. At present it has all the evils of a monopoly concern petted and favoured by irresponsible boards, who have more the interest of the foreign trader than of the Indian tax-payer at heart.

General Principles of Taxation.

The question whether these and other sources of public revenue, to which we shall advert later on, are equitable and in accordance with economic principles is one of prime importance and cannot be answered without defining those economic principles which are the fundamental basis of taxation. One naturally refers to the well-known maxims of Adam Smith, which in spite of years still take the field, and desires to know the additions or qualifications necessary to bring them up to date. It may be stated at once that although a few maxims of minor importance have been added by critics, the maxims of Smith are good for working purposes, though all of them are not of equal importance. Criticism has rather centred round the view-points that should be taken in a scheme of taxation than upon finding out qualifications for them. And the view-points are the logical outcome of the various annotations made on the ability principle which is the first and the foremost of his maxims. Himself a nationalist of wide outlook, Smith attacked the mercantilist theory which was in vogue in his time; and his successors founded upon his system a distinctly individualistic school, of which the most celebrated exponent was Mill. Under the influence of the utilitarian school of moral philosophy, the individualist school in economics imposed stern limitations to governmental actions. It is not to be wondered that during the nineteenth century a stricter interpretation was given to the obligations of State in respect of individual concerns. It is a far cry from those days to the socio-political doctrines of Wagner which strike at the root of all social organisms that rest upon free competition and the distribution of property based upon it. Socialism and communism are not yet spent forces, and though the best modern economic thought does not go so far, it goes far enough to justify the employment by the State of its powers for promoting such economic and social adjustments as will make for the well-being of the

people at large. Whereas Mill thought that graduated taxation was graduated robbery, Marshall held that the shares of national burdens must be graduated very steeply! The intensity of the demand for "steep" graduation has already created a reaction in favour of proportional taxation, as it may at a certain stage swallow even twenty shillings in the pound.

The difference between the two views is a difference in fundamentals. The Mid-Victorian view of taxation was that it must be raised only for revenue purposes; but the twentieth century wants to emphasise an ulterior purpose, which is to effect distributive justice in the aggregate of national wealth. Schemes of taxation, therefore, will necessarily have to vary, and attempts are also made to justify taxes on principles which are in accord with the economic ends the advocates have in order to extend their operation. Indirect taxes for example, and taxes on consumption, expenditure and enjoyment, which in some cases are regressive, are justified on the older view, but progressive taxation can be justified only on the modern view. Some economists, who are astounded at the length to which graduation can be carried on, seek to justify it on the rental theory. Mr. J. A. Hobson justifies it on the ground that it is only taxation of surplus, though he admits the difficulties in practical application of the theoretical basis of economic rents. Proportional taxation, on the other hand, can be justified on the older view and will not meet with the requirements of modern advocates. Sir Josiah Stamp seeks to unify the conflicting principles by enunciating the view that "first one must assume the differences in wealth and ability to have some ethical or economic warrant behind them; provided secondly, that the burden so laid has no economic reactions inimical to the progress of society, one can then examine the basic assumption, and if it is felt that it is not fully sound, and that some people are richer and others poorer than can be justified either on ethical or economical grounds, one can go cautiously away from the first results by judicious modifications." A deviation from this ethico-economic principle is beset with difficulties, and he adds: "When we introduce the third principle—the obligation of the State to rectify unjustifiable differences of wealth—we put it upon the State to inquire into the merits of the two incomes and to ask such questions as the following: Is it really possible for pure ability to be worth so much more than ordinary powers can command? Is not the reward too high? Does not this man exploit the monopoly of his name and fame, and draw as unearned wealth fees from a lot of old ladies who fancy they have something the matter with them? Unless we are going to deny that men differ in ability, in application and in thrift, and that those differences are rightly reflected by some difference of fortune, we cannot carry the obligation of the State to rectify inequalities of fortune beyond that part of the inequality which we can confidently assert is not a proper reflection of the inequality of ability, application and thrift."

The view-point of Sir Josiah Stamp has certainly this merit about it that, whereas it moves away from the older school, it does not approve of a wrench from the economic foundation of modern society, based as it is, upon a competitive system and free organisation and movement of capital and labour. The ulterior object of taxation will have a subordinate place in a scheme, the prime concern of which is an equitable burden on the tax-payer on a progressive scale. It need hardly be pointed out that it is possible to carry out this principle only in the case of direct taxes on incomes from whatever source they may be derived and upon tangible immovable property. It would be very difficult to give effect to it in indirect taxes. Professor Seligman says that it is possible to do so. He instances the case of whisky and tobacco and asks: Why should not the whisky tax be imposed at a higher rate on the better grades? Why should not the tobacco tax be so arranged as to increase progressively with the price of the cigar? Why should we not realise the same principle, so far as practicable, in the case of articles of consumption? If, as he says, it is possible, there is no reason why he should add the qualifying phrase "as far as practicable." It does not appear, however, that taxes on consumption have anywhere been successfully imposed upon the progressive principle. Even a flat or proportional rate has the effect of being regressive. Compared with the rich, it falls heavily on the poor; more especially on those with a large family. Administrative difficulties introduce a further element of regression. Whether the duties are specific or *ad valorem*, or a combination of both as in India, it would be difficult to levy a rate on the commodities, so that the consumers may be made to pay in proportion to their abilities. It cannot be otherwise. The needs of the poor are many and incessant; their resources limited. But the needs of the

rich are easily satisfied, and with increasing incomes with perhaps a sense of little or no sacrifice. No amount of graduation on the same commodities can possibly render the hurt caused to the poor measurable in terms of the hurt caused to the rich.

It follows then that on economic principles the indirect taxes on consumption and expenditure can play but a subordinate part in a well-ordered tax system. The principle underlying the levy of indirect taxes is the Smithian maxim that every subject must contribute to the State according to his abilities, wherein emphasis is laid on universality rather than on ability. As usual, there is a difference of opinion as to their incidence. Adam Smith himself says that the consumer is at liberty to pay or not to pay these taxes; and many of his followers acclaim their voluntary character. Whatever may be said of certain luxuries which most people in moderate circumstances can go without, it will be absurd to maintain that indirect taxes are not so many involuntary levies. Where the articles taxed are necessaries the tax is obligatory; and in some cases they may even enhance the price by more than the amount of the tax. But it is true now as of yore that man does not live on bread alone; and if food is exempt from the schedule of taxed imports, the poor may assuredly get a little relief. But a tax on food is not a remote contingency even in free trade England, and if imperial preference begins to discriminate in favour of empire-grown wheat as against Argentine or American supplies, indirect taxation will have begun to tell upon the cost of living in every English household. Nor can a decent revenue be derived by confining the schedule to a few articles of luxuries. It is the index of a good tax that it yields a large amount with little inconvenience; and the customs are levied not because they offer to every purchaser the choice of paying the duty or not—in most cases it is Hobson's choice that is offered—but in order that it may spread among the largest number of citizens of the State. The customs serve a double purpose of dispersing the burden upon the consumers and rendering the collection least objectionable. The tax-payer does not feel the same irksomeness in paying an indirect tax as he does in paying a direct tax. It is imperceptable and that is its chief merit. There is thus a conflict between the two principles, both equally important: the principle of universality overpowers the principle of ability and makes the tax regressive and by no means progressive. Where the object is only to raise the revenue, the tax is an unequal levy, and unless coupled with direct taxation its incidence is likely to be felt oppressively by the poor at the expense of the rich. But there are very few countries which impose customs duties merely for revenue purposes; the ulterior motive of protection is the controlling factor, however much the protectionist pill may be sugar-coated with high-sounding names as the safeguarding of industries. And financiers will have in the future to consider the dynamic effect of import duties more than their elasticity in yielding revenue.

There was some discussion last year in the Legislative Assembly whether it is a scientific or a "more scientific" scheme of taxation that has got to be devised. It would be extravagant to contend that the eminent financiers who have been in charge of the administration, including such stalwarts as Mr. James Wilson, Mr. Samuel Laing, Mr. Massey, Sir Evelyn Baring, Sir Auckland Colvin, Sir David Barbour, and Sir Fleetwood Wilson, not to speak of the host which the Civil Service has contributed, have not been imbued with the tradition and principles that have governed the administration of public finance in the United Kingdom and have not been actuated with the best of motives in organising and developing a system, which, if it cannot be justified on the principles that are in vogue now, did good service in their days. But there is ample room for the cynical observation that, circumscribed as the Finance Members have always been to subordinate the general interests of this country to the wider interests of British traders and manufacturers and the incessant claims of the War Office, the policy followed has in the main been to raise the maximum revenue with minimum fuss. Apart from the classic instance of the cotton duties, there have been ever so many instances of the undue interference of British interests, real or fancied, in the shaping of our financial policy; and if ex-Finance Members would only lift the veil that hides the secrets of their official life, it would bring in a revelation of astounding moral value. At all events, such is the general view which exhibited itself in outspoken criticism even in the very first year of the reformed councils when, voicing the considered opinion of his colleagues, a friendly critic of Government said that "there is internal evidence, during the discussion within the four corners in this house, that neither measure (the budget and the Finance Bill) traces descent from the Hon'ble the Finance Member; that he is really a free agent with reference

to either; not with regard to the important question of the sale of reverse councils, not with regard to the important question of exchange; not with regard to the omission of the duty upon imported silver bullion; there are clear indications that the Hon'ble Member is speaking with a borrowed voice." And Sir Malcolm Hailey, the Finance Member, who followed him, maintained a discreet silence in regard to this direct challenge, except that on the matter of silver duty he did not hear from Home. Having regard to the limitations imposed upon the Indian Finance Member, it is impossible that his voice can be heard or his views prevail, when there is clear conflict between the two countries, though he happens to be a man of outstanding abilities. Even the Secretary of State for India can do little; and the late Lord Salisbury stated in his evidence before the Select Committee of Parliament on East India Finance that the only remedy for this state of things lay in irritating public opinion. It is no easy matter to irritate British public opinion on matters Indian.

Subject to this limitation and making due allowance for the subservience of our interests to the paramount claims of the British tax-payer, an examination of the tax system reveals the gulf that separates it from economic principles old or new. There has been little or no thought given to the incidence on the tax-payer, and the lancet has not been applied to those parts of the body where blood is most congested. The principal source of revenue till recently was the land, and the first impact of the tax is made to fall on the small cultivator, the larger landowners having their demand permanently settled. Apart from the fact that there is a total absence of progression, the small cultivator has his demands periodically revised or enhanced on principles, which the Settlement Officers are perfectly satisfied are the soundest, and, what is more, misunderstood by everybody else than the official coterie. A recent order of the Madras Government stood aghast at the suggestion that the small cultivator paying a tax of ten rupees and under should be exempted from taxation and entrenched itself behind the historic sanction that propped it. As Canard said, an old tax is a good tax, or in other words, an ancient iniquity is sanctified equity. The principle underlying the land revenue is the Biblical saying that to him that hath much shall be given, and from him that hath not, even the little that he hath shall be taken away. In addition to the land revenue, which falls upon the largest number of people, there is the salt tax which falls upon everyone. The duty on imported cotton, woollen and silk and the excise on Indian cotton manufacturers—which is a purely Anglo-Indian patent in scientific taxation—fall universally, to which we may add the duty on sugar and petroleum. If we leave out of account the duty on imported liquors, the excise duties on local manufactures must be deemed to fall upon the poor, however wicked the drink habit may be. The heavy cost of the movement of goods and men internally falls upon the poor. The principal sources of tax incomes are thus derived from the poor and clearly they are regressive. The only exception is the tax on incomes, which by the adoption of the principle of graduation has recently come to the relief of what otherwise has been a hopelessly unscientific system of collecting as much revenue in as insidious a manner from as helpless a number of people as possible.

The Land Revenue.

In concluding an elaborate review on the land revenue policy of the Indian Government, the writer of the classic apologia of 1902 confessed that the one claim which the Government of India would decline to make for it was that it could properly be regarded as a science. After that, it would be mere supererogation to debate the question whether it is based upon sound economic principles. But the controversy as to whether it is a tax or a rent still continues unabated and is likely to grow till a statutory basis is given to the principles that should govern its levy. Adam Smith defines rent as price paid for the use of land; and the Government hold that as owners of land they are entitled to claim a share of the produce as well as a share in its increment. "The ryot in India has, generally speaking," said Sir Edward Law once, "neither won his lands by the sword nor purchased them by a cash payment; he therefore properly pays the rent thereof, to the proprietor, that is, to the State"—a theory which invites a retort which need not be made. The concession to the landlord or the tenant of a complete monopoly of the profits of all improvements of the soil in perpetuity, whether created by himself or not, runs the resolution, would be a doctrine not merely economically unsound, but without any foundation in native custom or any precedent in history. The customary or historic aspects need

not detain us here; what is more important is the economic ground that is relied on. Assuming that the land revenue is to be regarded as simply a price paid by the intermediate landlord or cultivating tenant, the price may be fixed as high as a monopoly tax. As the sole owner of land, which is a limited commodity, there is nothing to prevent the State from exacting the full value thereof, and the result can only be to swell the cost of production in agricultural industry. The rent being part of the cost of raising produce, agricultural products will have an enhanced value which will be ultimately shifted on to the consumer. In this sense, there is no difference between the rent of agricultural land and the rent of lands, tenements and hereditaments used in any other trade or industry. It is open to those engaged in agricultural trade to pay the price which the owner demands, even though it may be the competitive price, and so far as the general community is concerned, it can no more complain against it than against any other item which makes up the cost of production. And, after all, the price for the use of land may not be a determining factor in the ultimate cost of the produce.

Such, however, is not the view of those who rely on the rental theory. They do not take their stand on the more comprehensive definition of Adam Smith, but confine it to the well-known theory of economic rent enunciated by Ricardo and developed by his successors. They are unwilling to own that by any act of theirs they are wilfully putting up the price of food and urge the modest claim to take but the least useful portion of the national wealth leaving the rest for the benefit of the producer. They further contend that on no account can they surrender to the landlords or tenants any portion of the improvements due to the growth of population to the gradual development of the country, to the introduction of new staples or to an increase in the productivity of the soil and in the value of its produce, more particularly if the latter are themselves the result of an expenditure upon irrigation or communications that has been incurred by the State. The theory is the same that was at the bottom of the "increment value duties" in the United Kingdom, which met with such a signal failure. It is justified on the principle of special ability or windfall which the landowner gets by social developments, and which he is therefore capable of paying without any particular hurt to himself. The landowner does not "earn" the increment for whatever is earned by him is exempt from taxation, and what portion of it is not so earned may justifiably come under the beneficial operation of the revenue authorities. The increment due to the progress of society as a whole must go back to the society by means of general taxation. There is a moral and economic justification for it. The assessment of such unearned rent or increment has to be worked out by the Settlement Officer in the village or in the fields and not by the theorist in his study. The Settlement Department, according to them, is a bee-hive of practical economists who weigh in the balance the "earned" and the "unearned" increment in each unit of cultivated land and appropriate for the State the "unearned" income reserving the earned income to the actual cultivator.

Whatever may be the theoretical basis of unearned increments in a sparsely-populated region with extensive areas awaiting the combined efforts of capital and labour for their exploitation, it will be folly to apply the same notion to a well-developed country which is thickly populated and where all the cultivable land is brought under the plough. The blind application of the theory of economic rents to the practical conditions of agriculture is responsible for the belief that the land yields an unearned increment of 25 per cent during the lifetime of every generation, and that the Government with unexampled liberality take but three-fourths of it. And how this unearned increment of 25 per cent works out to half the net produce of land is nowhere clearly stated. That the theory itself is subject to considerable modifications in places where agriculture is the main industry, and no other industry has contributed to social developments without effecting corresponding deterioration, must be patent to any one who works in the study; and to the Settlement Officer it must be still more patent. And it is because a superficial survey of certain ephemeral tendencies which arrest the eye has been mistaken for economic symptoms of settled growth, that the agitation for an economic enquiry into the condition of the people is deservedly gathering strength. A closer examination will show, however, that every unearned increment is, as a matter of fact, earned by hard and wearisome labour, year in and year out, not merely by the hardy male but by the entire family working on a few acres of sunburnt soil, which is all that stands between them and starvation. Besides, all the factors

which make for social development are taxed to the top by a benign Government. Irrigation is taxed; roads are taxed; transport is taxed; and manure is taxed. The growth of the population does not enhance agricultural values for the more men are thrown on the land the less is the yield *per capita*, and it is notorious the pressure of population on the land is increasing steadily. It is a case for easing the horse and not tightening the reins. If new staples are introduced and the soil is made more productive, it is due certainly to human effort, whether of capital or labour, possibly both. There is no unearned shower for an Indian cultivator, as is for the man who invests in oil or rubber or any such speculative stock, and of whom it may safely be said that he toils not, neither does he spin. If, as Mr. Hobson says, it is not feasible or equitable to attempt to earmark and attack for revenue the separate items of surplus in industrial wealth as they emerge in the present distribution of rent or dividends or profits, the presumptuous claim to measure by a percentage the unearned increment from land is the most audacious for a Government department to make even in this country.

The practical difficulties in separating the economic rent from the value of the produce are recognised by all those who are not obsessed by the need to find theoretical justification for established wrongs. There are as many unworthy earned incomes as unworthy unearned incomes, says Sir Josiah Stamp, but without stooping to discriminate, it may be stated that what passes for rent is not merely rent in the Ricardian sense, but rent in a commercial sense. The land revenue is the price paid both for the use of land and the improvements made therein. Even Mr. Shirras is forced to admit in all discussions on the incidence of a tax on rent it should be remembered that pure economic rent of agricultural land is not confined to the natural qualities of the soil, but is infrequently mixed up with forms of income due to capital and labour, and that in India it certainly is not, except in the rarest cases, pure rent, and, like similar imports on land in other countries, is best classified as a tax. He adds: "It has all the characteristics of a tax and its classification as rent or as a tax does not in any way affect its incidence or its effects." That in fact is the real issue. In the calculation of rates of assessment between land and other incomes there is certainly some allowance made in favour of the former. The rate is on the net produce; allowance is made for seasonal fluctuations, for costs of cultivation, for varieties of produce, for differentiation in soil and for improvements made by the landlord or tenant. And yet, the question remains whether a 50 per cent tax is a reasonable levy. In all these refined calculations, the marketable value which land inherently possesses is invariably ignored. No account is taken of the capital invested on land, unless it be that agriculture is an industry which is expected to be dividend-free. If the tenant is to be reduced to the status of a serf attached to the land, which is inalienable and from which he cannot be alienated, the land he cultivates becomes part and parcel of the serf which has no value outside of him. But if agriculture is to thrive as a national industry and a going concern of immense potential and recurring wealth, the investor must expect some return. Mr. Findlay Shirras says that in some places land is worth eighty or ninety times the Government rental. A 5 per cent interest on the value of 25 years' rental may be a very moderate deduction from an arithmetical calculation of the net produce and, if that is allowed, no tax will be payable at all.

The question is naturally asked how then the land is growing in value. The reason is not far to seek. The mass of the population do not regard land as a field of investment, but as a certain source of income wherein capital is secure from loss or depreciation. Owing to the general ignorance prevailing and the absence of sound sources of investment, the only wealth they can think of is land and buildings. The fresh fields and pastures new opened by the contact with European civilisation have not been tempting, encouraging and inviting. Many of the small industries newly started have more or less failed and left no pleasant memories behind. The economic effect of the crash of Arbuthnots in raising the value of land and buildings in the Madras Presidency has been disastrously felt; and similar failures elsewhere have had no better result. The joint-stock banks are making but shy overtures to the current capital of the educated middle classes; but except in a very limited measure the confidence in the security of the capital, let alone a decent return for it, is not widespread or firm; and however much it may be deplored, the fact cannot be disputed that lands have assumed a value, because of the scarcity of other forms of investment guaranteeing moderate and reasonable security. The fall in the value of Government papers, the emergency issues of income-tax-free loans and other baits to draw capital

from its hiding places have all been construed as so many attempts to inveigle it into dangerous paths full of perils and adventures. The artificial appreciation in the value of land can only be reduced to a normal level by increasing confidence on the part of the investing public on the success and stability of modern institutions like joint-stock banks and industrial concerns. An immoderate demand on land can only end in depressing savings and accumulations and striking a blow at habits of thrift, which it must be the endeavour of every one to stimulate and foster.

The economic effects of the land revenue system cannot be fully gone into in a paper dealing with tax problems. It has been looked at from different angles by different on-lookers for a good number of years past. When the discussion was at its height soon after the pontifical pronouncement of Lord Curzon, Mr. Donald Smeaton, a very friendly critic of Government and an official of considerable experience, said that they overdid the claim to have established the proposition that "over-assessment is not, as alleged, a general or widespread source of poverty and indebtedness in India, and that it cannot fairly be regarded as a contributory cause of famine". In his view it was unproven. He held that a population of not less than fifty millions of inferior tenantry were seriously affected by the land revenue policy along with another twenty millions of field-labourers. "It can hardly be denied," he said, "that intensity of famine on this large population of sub-tenants is greatly due to poverty caused by the operation of our land revenue system as a whole". The evil is sought to be remedied by giving fixity of tenure to the tenant-farmer, by recognizing his legal right to the occupation of the fields he works in and, if possible, by making it inalienable. It is only an ill-conceived attempt to do away with the middleman landowner who is the *bête noire* of the Settlement Officer. The scheme is made attractive by certain writers who suggest the creation of "economic units," division below which must be statutorily prohibited. The proposal reminds us of the one made by Mr. Jesse Collings to give every farmer three acres and a cow in the British Isles; but what the economic unit is to consist of in this country is not definitely stated. Possibly, that will have to depend upon the quality of the soil, the nature of the crops, the sources of irrigation and the capital and labour available in each locality. It is beyond our scope to enquire into the merits or the feasibility of such proposals: they open out a large problem. What we are concerned with is the place of land revenue in our tax system and the best way of removing the defects where they exist.

Judged from the point of view of a tax measure, the system offends against all the recognised maxims of taxation. It does violence to the first maxim of ability laid down by Adam Smith. The large owner whose demands have been permanently settled in extensive areas gets a differential treatment from the small tenant whose demands are periodically enhanced upon shadowy grounds. The political and historic reasons may interest the antiquary, but not those who actually bear the brunt of the burden. Even if proportional taxation is the only safe and logical guide to the ability principle, the non-exemption of the petty cultivator, whose annual rental is ten rupees and under, can find no justification in rational economics. The arbitrary and uncertain character of the levy which is liable to be enhanced every twenty or thirty years is another source of complaint. Even during the currency of a settlement the cast-iron system of a fixed money demand creates an uncertainty as to the commodity value of the tax and that matters to the large body of agriculturists more than a fixed commutation rate. Especially is the hardship likely to be heavy in a period of falling prices. The tax is again levied and collected at a season which is most inconvenient to the tax-payer. The payment might very conveniently be spread over double the number of months than now, and it will not be a hardship even to the village accountant. The last maxim of Adam Smith is violated by no tax more effectively than by the land tax as has been already pointed out. Looked at from the point of view of the individual or of the Government acting for the community in its State organisation, or even of the community as a producing or economic society, the system is a disappointing failure and calls for an early change.

The economic considerations relating to the first impact of the tax and the final incidence to which reference has already been made, and the want and privation, to which not only the subordinate tenants and field-laborers but the still more considerable body of landless people are exposed, impress the vital need to attack the problem of an exemption limit. The recent justification of the Madras Government that "by universal custom assessment is levied on each acre of land occupied," might do reverence to their

title as inheritors of an ancient inequity, but scarcely as progenitors of a just and equitable tax system. Something can, however, be said to the plea that "very grave difficulties would arise from any attempt to distinguish between large and small holdings," if well founded; but the gravity of the difficulties is left for one's imagination to fill. If a distinction can be drawn between large and small "earnings," there is no reason why one should not be drawn between large and small "holdings". While the fixing of an exemption limit will be an act of moral justice to the poor, it is bound to have an economic advantage of far-reaching import. It may possibly pave the way for the consolidation of small holdings even up to the extent of convenient economic units as the tax-free tenant can compete on more favourable terms with a tax-paying landowner in the purchase of agricultural plots; and incidentally check the tendency to fractionisation, a tax on which will fall only on the necessitous vendor. Whether the economic advantage is capable of realisation or not at the present stage of the destitution of the peasantry, the exemption of the tax up to a certain point is bound to give new hopes to drooping spirits and disappointed hearts, and may slowly but steadily enable them to realise the full fruits of the measure. The economic advantages of large holdings, where they have withstood the ravages of the Hindu Law of partition and inheritance, may also be expected to preserve them from breaking up to escape the burden of taxation. The exemption of small holdings does not mean the shifting of the burden to the large holdings.

Another remedy which lies open, and which can be justified on economic grounds, is the introduction of a permanent settlement of the rates of taxation with every individual landholder. The historical aspect of the case will evoke bitter memories; and has been reviewed by Mr. Dutt and the Government of India in reply to his criticisms. What Sir Thomas Munro said and what promises a number of proclamations of the Government held forth may be forgotten for the nonce. It will be admitted without doubt that the periodical revision of land revenue with its consequent enhancement of the State's demand must necessarily put up the price of agricultural products. On an average a district will come for revision every year, and there is thus a continuous putting up of the price of produce in every district. A rise in price in one district will have a sympathetic response in others; and a rise of price in agricultural products will also raise the price of all other commodities. High taxation means high price level; but an increasing taxation is worse. So far as the agricultural industry is concerned higher prices may mean higher profits and dividends, if the condition of the landholder alone is the primary concern of the State. But the condition of the general consumer is a matter of equal concern for it, and there can be no justification to levy an abnormally high duty on this essential home production. Under normal circumstances when there exists a settled and unalterable rate per unit of cultivated land, it will enter into the cost of production and the price of produce will be regulated by demand and supply. But a fifty per cent charge on the net produce practically doubles the cost of food and affects materially everyone who does not grow his own food. It is from the point of view of the general consumer that the land revenue has to be judged, even though the conditions laid down by Sir Thomas Munro and his successors may not be fulfilled. And when those conditions such as a proper survey and settlement, the construction of proper sources of water-supply, the cultivation of a good portion of the cultivable waste and the adequate assessment of land, are fulfilled, the case for permanency of settlement becomes strong and unanswerable.

As a necessary measure of financial reform and as a corrective to the introduction of a permanent settlement, a tax on higher agricultural incomes may be considered to make good the loss that might be caused by these two measures. Any extravagant hope as to the probable accretion to the public revenues is likely to be falsified, and the highest estimate made is about five or six crores. After all, it is only the big zamindars and landholders that can be attacked. A distinction may necessarily have to be drawn between the proprietors of permanently and temporarily settled areas. The zamindars in permanently-settled areas may justifiably be taxed on a slightly higher scale than those in the temporarily-settled areas, as these will have to pay in addition to the duty on incomes enhanced rates of land tax, possibly of twenty-five per cent every generation, if the proposal for a permanent settlement were vetoed. The distinction, though invidious, has really for its object the equalisation of the incidence where the disparity is now notoriously pronounced. The exemption of agricultural incomes from taxation has carried the benefit to agriculturists' incomes, and the removal

of the anomaly will bring all accretions to agricultural wealth to the pool. Messrs. Shah and Khambata estimate at about a hundred and fifty crores the agricultural incomes of landlords that so escape taxation, and on the analogy of receipts on incomes, estimate a probable improvement of fifteen or sixteen crores to the exchequer. But if the exemption limit is placed high in order to allow a margin for the land tax already paid, the estimate will probably be high. There is again the question as to the real rent received by the zamindars. Mr. Shirras assesses the present bounty enjoyed by the zamindars at six crores per year. A tax on higher scale on properties than on earned incomes from professions and trade is generally recommended on the ground of the absence of precariousness and uncertainty; but practical farmers think otherwise. You cannot charge the gross income of agriculture on the same scale as other incomes. Especially in this country where the sources of irrigation are limited and faithless and the rainfall is uncertain, the chances of a succession of good crops are remote—the agriculturists hold equally precarious with the earned income of the professional men. It is true that land cannot be extinguished, though it may reach the maximum stage of impoverishment; and that is why the tax on higher incomes is to be in addition to, but not in substitution of, a moderate tax on rent. Whether the exemption limit is to be Rs. 3,000 or Rs. 5,000 may be decided upon after a few years' experience. In order to avoid taking any rash step, the limit may safely be kept to start with as high as Rs. 5,000. In any reform of the land revenue system the lines of least resistance are the best and the higher patriotism of the nobility may be expected to reconcile itself to this sacrifice, in view to the relief that it will give to the large body of smaller proprietors who are scarcely in a position to keep body and soul together.

The Inheritance Tax.

Closely allied to the question of the distribution of land revenue is the introduction of the inheritance tax into the fiscal service. The suggestion is not a new one. In the Imperial Legislative Council it appears to have been raised twice, once by Sir Griffith Evans and another time by Dr. Rash Behari Ghose. The Government of India also seem to have discussed its feasibilities on three different occasions; once at the instance of Sir Henry Maine, again at the initiative of Sir Edward Law and for a third time in connection with the Calcutta Improvement Scheme. Sir Edward Baker declared in 1907 that on all these occasions the verdict was against it and that though possible on paper it was unworkable in practice. It is now revived by those who are impressed with the need for additional revenue. The difficulties with reference to the administration of the duties owing to the joint family system may be overcome. Nor will the novelty of the measure be the chief ground of its condemnation, as it carries with it the experimental recommendation of almost all the civilised countries. And when it is seen that the duties have been a source of considerable financial strength to the worried governments, they are deemed legitimate sources that ought to be tapped and incorporated in any proper fiscal system. What they are expected to bring in this country is nowhere stated with authoritative precision; and, after all, one may not be sure that they will bring in any large revenue. The main yield will necessarily have to be from the land. Taking the value of the land at 25 years' purchase on the average of the annual tax, the total valuation may be fixed at 750 crores or 1,500 crores including the permanently-settled areas. It may be regarded by many as an underestimate; but certainly 1,000 crores may be taken as a fair estimate, due allowance being made for all subsisting encumbrances. If the property is expected to change hands every 25 years, 40 crores of real property may come under the operation of the tax-gatherer, and including the value of the personalities of 10 crores, 50 crores in all. At an average of 5 per cent, the tax can yield but 2½ crores a year. The estimate may be checked with the yield of the tax in the United Kingdom. Before the War the annual accretion of national wealth was estimated at 350 to 400 millions and the death duties collected were 25 millions. The most optimistic estimate in India has been 20 crores, and 8 per cent will bring in but 2½ crores. As all estimates go, it is only a guess; but it is certain that the financial outcome will not be comparable with the political and economic risks involved.

And it is the political and economic risks that have got to be duly noted. The duties will be regarded by the people of this country as a direct affront to those common feelings of delicacy which would not suffer the

presence of the tax-gatherer in the midst of a company of chief mourners. It is a sentimental objection no doubt, but there is a certain solemnity attached to death, which even in this materialistic age renders it a mockery for one to invade the precincts of the family with a demand-roll, as to the deceased's personal and real effects. The preponderating opinion, legal and economic, is said to be that the duties are not a tax upon property, but upon the transfer of property. The view cannot be strictly correct under the Hindu Law, where the issue takes an interest the moment he is born. Even if that were ignored, death is too solemn an occasion to trifle one's feelings with; and when the deceased is perhaps the chief earning member of the family, it will be only adding to the poignancy of the grief if the State should claim a portion of what Death in its mercy may have left. And since all the members of an Indian family do not usually earn, the demise of the earning member would be an occasion calling for human sympathies rather than official exultation. For the State to claim even 3 to 5 per cent of the deceased's savings is to deprive the family of even the slender resources that might have been left for them to live by. The deceased might perhaps have been cut off under tragic circumstances when his presence was most needed, and when the calls of the family had pressing and increasing needs on his earnings. The severity of the loss cannot be relieved by the cruelty of the reply that he should have anticipated the event and provided therefor, or that he was in no worse position than he would have been if he had paid increased duties on income. That supplies no answer to the family that had actually lost not only a dear relation, but from their aggregate wealth the total capitalised value of his earnings.

Leaving sentimental objections aside, it is a wholesome canon of taxation that a duty must be avoided if it can be evaded. So far as the death duties on personalities are concerned, it is easy to evade them, and they are certain of evasion. Even an exacting tax-gatherer will fail to tap a fourth of the assets that might very properly come under his operation. It does not require the genius of a Sidgwick to declare that the duties will be determined by the danger of evasion rather than by the danger of checking industry and thrift. Donations *inter vivos* are very common among the Hindus and Muhammadans, more especially among the former, and very little usually, is and will be left to be apportioned after death. It will be extremely difficult for administrative purposes to determine what had been disposed of by the deceased during his lifetime and what remained to be distributed among his heirs and survivors, unless a grand inquisitorial and confiscatory office is set up to administer the law. The *benami* system is so deep-rooted that it will even be difficult to get at tangible and intangible personalities which may not have been transferred during the lifetime of the deceased; and if the Government take away the jurisdiction of courts, it will give rise to widespread discontent. It will be bringing disaffection to the very doors of the cottage. The failure of the general property tax in the United States to get at personalities and the transfer of the burden on realities is an object lesson as how death duties on personalities may be expected to work. Even in respect of land and other immovable properties, the prevalence of the *benami* system might in many cases successfully thwart the attempt of the tax-gatherer from getting a hold on the proper share of the deceased. After all, no system of taxation foreign to the genius of the people and wounding their susceptibilities can work successfully, unless it be with the co-operation of the tax-payer; and if the Indian people make a dead set against these duties, as they are sure to, the difficulties in the administration will be found to be all but insuperable.

There are one or two things which will also have to be considered in regard to the incidence of this species of taxation, however sound and reasonable they may seem at first blush from the point of view of the financier and the economist. The duties were not imposed even in the United Kingdom without encountering severe opposition, and at its head was the good Queen Victoria who summed up the points to be urged against them in a letter to Sir William Harcourt. The chief ground on which Sir William, himself a radical country squire, urged the case for the duties was the general belief that land in the United Kingdom did not pay its share of the expenses of Government. When the case for the death duties was four millions for the navy or a pampered landlord specially exempt from his due share of public burthens, the matter is at once settled and all opposition hushed. Nobody can say the same of this country. It can hardly be contended that the land does not bear its share of public burthens: on the contrary, land is the most highly taxed commodity here, except of

course in the areas permanently settled. And in order to equalise the incidence on all land, the suggestion is already made to remove the exemption from taxation of higher agricultural incomes, on a progressive scale, though this will involve double taxation. If this proposal is adopted, agricultural land will have paid its due share of public revenues, and a further duty can only be viewed as an exaction not satisfying the conditions under which it came to be imposed in the United Kingdom. The stamp duty collected on all transfers *inter vivos* are sufficiently high; the annual tax is pitched on no modest scale; and a duty on large incomes on a progressive scale will have completed the various directions from which land can be attacked and depressed. A further duty on death can only give a death-blow to reasonable modes of capital levy.

It is generally held that taxes stick to where they fall; but it may not be that the death duties will stick to the so-called beneficiaries. In the large majority of cases, where the real property is house, the tax will be shifted to the tenant as tenancy is more or less at will, and there is no active trade in house-building. The necessity for protecting tenants from the rapacity of the landlords is being increasingly felt in towns and protective legislation is loudly called for. An inheritance tax upon house will give the whip-hand to the landlord to shift the burden to the tenant-at-will. Where the house is occupied by the owner there will be no shifting, and as a large body of house-owners may be engaged either in agriculture or trade, they will naturally try to pass it on to those who consume their goods or command their services. And when such shifting is impossible, it can only lead to fresh indebtedness. This will certainly be the case in respect of people who live upon the land and have no surplus produce to bring to market. Even though the payment be spread over a number of years, it must necessarily work as a hardship every time it falls due. The pressure of agricultural indebtedness, already acute and distressing, ought not to be further accentuated by any addition to the burden of the landowner. The extent to which the duties may aggravate hardship may not be easily gauged, but there can be no doubt that as land is overvalued by reason of some economic conditions, even a moderate tax must press heavily upon it. The market value of land is by no means its true value, and it may have to be halved for assessing purposes. An average of 4 per cent has been earned by a fortunate few among those who have invested on land and is poor value compared with a war bond carrying 6 or 7 per cent interest income-tax free. The *Sowcar* is shown to be particularly busy in the season of *kist* collections, and he is sure to ply his trade even more briskly if this fresh impost is levied on land. Between him and the *Sirkar* they will only give an additional turn to the screw of the coffin of the peasant.

The economic evils that are likely to flow from the duties do not seem to have been sufficiently realised by those who talk glibly as "maids of thirteen do of puppy dogs" about the possible accretion to public revenues. These persons seem to have been amazed at the growing incomes of zamindars and busy professional men who leave enormous fortunes when they die. Even if that were so, there is no need in this country for a statutory prohibition of accumulations of wealth: there is no law of primogeniture. The continuance of a single fortune through several generations is impossible, and as the saying goes "there are three generations from shirt sleeves to shirt sleeves". There is, however, no fear of any superabundance of wealth crowding into the hands of a few or dissipating among the many: the poverty of the mass is strikingly phenomenal. And if their poor savings were to be escheated in part after their death, they can only be redeemed by a forced sale of the rest. The beneficiary in ninety-nine cases out of a hundred will have no ready cash to pay the duties, and he must needs sell or mortgage the properties in a depressed market. The death of every owner will be an advertisement for speculators to knock the property down at a bottom price. There will commence an era of depression both of real and tangible personal property all through the year. Secretary Mellon of the United States gives an instance of a wealthy man in England who has made a fortune almost entirely out of taking advantage of this necessity of executors, not knowing perhaps how his turn might come next. But for him and such like, sufficient unto the day is the evil thereof. If, as Mr. Mellon says, ownership of land in England has ceased to have value and large estates can be purchased for less than the cost of improvements, European precedents cannot impress us with the virtues of the new-fangled measure. A moderate flat or proportionate rate is nowhere in force and, if graduation is to be made "steeply", it might absorb a con-

siderable portion of the wealth of the inheritors and depress to an enormous extent the value of the properties. It might not be so bad as in Russia, but in effect there will be very little difference from Bolshevist finance.

The Tax on Incomes.

If there is any general and widespread notion that the tax on incomes is capable of expansion, it is high time one is disabused of it. For, the opposition to that measure is as strong to-day as it was when it was first introduced. The experience of half a century has certainly not acclimatised people to it, but has rather intensified the feeling against it. One touch of nature makes the whole world akin, and in respect of no fiscal measure has public feeling been so strong and united as against what it has come to regard as a pernicious and inquisitorial levy. When Mr. Wilson introduced the measure, it was to last for a period of five years, and his successor, Mr. Laing, declared that the promise was not like lovers' vows meant to be broken. Mr. Massey's objection was even more pronounced, and he did not rest the case for abolition upon the sentimental ground of keeping faith with the people of the country. The peculiar objection which is entertained to an income-tax is not so much the amount exacted under a moderate scale of assessment, he said, but the inquisitorial process to which it is necessary to resort. "The process is not very much to the taste of the English people; but it is specially repugnant to the habits and feelings of the people of India". It is true that when Sir Auckland Colvin converted the License Tax of 1877 into the Income-tax of 1886, no promise of early abolition was given. But even a sombre statesman of the type of the late Dr. Sir Ashutosh Mukherjee renewed his protest against it, not so much because of the incidence of the levy—the receipts were then considerably less than two crores—but because of the inquisitorial process of it. The War and the aftermath of the War have clouded the real considerations behind the opposition; but now that the grip is to be made tighter, the pent-up feeling will break out. If the tax is to play its proper role in the fiscal system, the first efforts of the financier must be directed towards removing those objectionable features, which mar its operations and make it an odious instrument of popular oppression. The weakness of vocal exhibition against it is due to the character and status of the assessees and the limited number—less than 2½ lakhs in a population of 300 millions—who are its victims, and whose claim all the same deserve consideration.

The main target of criticism is the agency for the administration of the tax which still recently was vested with the revenue authorities. It is now transferred to a special, and by all means an efficient agency, brought into being under the care and management of the Central Board of Revenue. That a special department to collect albeit a heavy sum from a limited number of assessees should have been organised, shows the predominant share which this source is expected to yield to the public revenues; but little attention seems to have been paid to the havoc of letting loose upon the country a multiplicity of officers who cannot co-ordinate their efforts, but can only harass the general tax-payer. When the country is divided into a number of districts for the purpose of what is called "general administration" where the chief revenue officer does nothing more than "administer" the land revenue system, economic considerations would seem to emphasise the desirability of charging him exclusively with the collection of public revenues in all directions, instead of rendering the machinery too cumbersome and unwieldy. At present, there are a crop of officers responsible for the various departments, each moving in an orbit of his own and not condescending to look at the other; and the chief revenue officer is charged with functions not entirely pertaining to the administration of public revenues. The result is a medley and no turnover of efficient work. Between touring and grievance-mongering, when there is no despatch-writing, they may be supposed to do the daily routine. If the head of the district is to co-ordinate with all officers administering the tax system, keeping them under his charge and subject to his supervision and control, the revenue department would be run on better, cheaper, more efficient and business-like lines than now. The reform might possibly do away with a number of independent solar systems that float on the official horizon, but in the interests of economy and harmony it will have to be done. An officer in charge of the forests, another in charge of excise, a third in charge of incomes, a fourth in charge of land revenue, all with separate

armies under their command, divide the responsibility which in each administrative unit must be epitomised in one, and be the custodian and repository of the economic knowledge of the district.

The baneful effects of the duplication of the machinery are increasingly felt in the administration of the income-taxes. Though the assessees number less than a thousand in each district taken in the average, a single officer is told off for the work distributed before among a dozen officers of the revenue department. The sources of information once tapped by the entire revenue staff are expected to be apprised by the resources he can command. An additional officer by way of relief is to supplement his efforts in obtaining first-hand information, which the staff engaged in the land revenue administration had facilities to secure, supplemented though by secret information, which enmity or malice can furnish. If the system has not collapsed, it is because the recruits have not been drawn entirely from the jaded staff of revenue department; and it is too much to claim for them that the vigour of administration has either attacked all possible quarters or omitted those who ought not to have been attacked at all. It could hardly have been better. When it is not possible or reasonable to let the tax-payer be his own assessor, it is necessary that the assessing officer must be in a position to get independent information and act upon his judgment when such information is obtained. If the spirit of the income-tax department could be infused into the land revenue staff and they are invested with the sole duty of investigating into the taxable capacity of the people each within his jurisdiction, surely they can make a safer guess approaching reality than a single officer or two, however capable and high-minded, not in daily contact with the people, and who can at best be guided by informations that may not stand scrutiny. And if the proposal to tax agricultural incomes recommended already were adopted, there ought to be a coalescence of the two staffs who now run on parallel lines. A single staff responsible for the levy and collection of both the agricultural and non-agricultural incomes—many a tax-payer may have to be rated for both—can by reason of their close contact with the people and a definite knowledge of their taxable capacity cause less irritation, vexation and annoyance than two independent organisations each working on its own lines and indifferent by the very nature of things to the effect of its systems on the economic condition of the tax-payer.

If the merger of the income-tax staff with the revenue department and the restoration of the *status quo ante* followed by a strict limitation of the function of the whole revenue staff, are necessary preliminaries for a juster administration of the revenue laws, the constitution of a separate board of appeal independent of the assessing staff is a matter of paramount importance. The provisions now for appeals to the Assistant Commissioner from the Income-tax Officer and to the Commissioner from the Assistant Commissioner, besides depriving the assessees of the easy facilities which they had enjoyed till now, and rendering the appeals more expensive and not worth the trouble, are further economically unsound and opposed to the principles followed in the United Kingdom. The appeals are heard in the United Kingdom by an unpaid body of General Commissioners, whose local knowledge is of immense help in making proper assessments, and in cases of difficulty by the Special Commissioners, a trained body of practising barristers, solicitors, or chartered or incorporated accountants or civil servants with inland revenue experience. The Royal Commission recommended that these Special Commissioners should be divested of administrative work and restricted mainly to the judicial side, that is to say, to hear and decide appeals. In the United States, Mr. Mellon has proposed the establishment of a Board of Tax Appeals in the Treasury, but independent of the Bureau of Internal Revenue, to hear and determine cases involving the assessment of internal revenue taxes, which should sit locally in the various judicial circuits throughout the country. This would give, in his view, an independent administrative tribunal equipped to hear both sides of the controversy, which would sit on appeals from the Bureau of Internal Revenue and make decisions, which would be conclusive on both the Bureau and the tax-payer on the question of assessment. The tax-payer, in the event that decision should be against him, would have to pay the tax according to the assessment and have recourse to the courts, while the Government, in case decision should be against it, would likewise be obliged to have recourse to the courts, in order to enforce the collection of the tax. If this proposal is too democratic, the constitution of an independent tribunal of unpaid commissioners of three to five persons, consisting of at least one retired

judicial officer of the standing of a Subordinate Judge or First-Class Deputy Collector, to hear appeals in each district, and a similar body with a slightly larger number for important commercial towns, must be constituted, decisions by the board being final. The statutory creation of such a board of commissioners will remove much of the irritation and annoyance caused by the administration of the present law.

So much for administration. Coming to the actual rates of the duties, the exemption limit which is now placed at Rs. 2,000 cannot be held to be high, and its reduction to Rs. 1,000 or even Rs. 1,500 will cause needless irritation and annoyance to a number of petty assessees, who are in the main residents of urban areas. It is true that compared with the British standard, where the lower limit is £135, the Indian limit is high; but if the family is taken as a unit there will be found to be no great disparity. In an European family every member earns except the children and the aged, and the family income in the aggregate is greater. Both the husband and the wife earn in many cases a taxable income which is seldom the case here. The Indian family has more members and the earning member supports a larger number of dependants than in any European country. Even as between a family which has a taxable non-agricultural income and a rural family sustained by agricultural incomes, the economic advantage is greatly in favour of the latter. As a rule, the members of the family dependent on non-agricultural incomes do not earn: they are so many parasites breeding upon the earning member. But almost every member of an agricultural family does his bit by working on the fields or in some other manner, so that the total wealth may in the aggregate be larger. If we allow seven members to a family in the lower limit of assessees, the income may be less than Rs. 300 a year or Rs. 20 a month per head. The taxpayer has to maintain a certain standard of living, and has certain conveniences to provide for. The exemption limit was specially raised on the ground of the increased level of prices that ruled in 1919, and it has not shown any appreciable reduction now. "On none has the present range of prices fallen more heavily," said Sir Malcolm Hailey, "than the people on low salaries who are caught in the smallest mesh of an income-tax levy. There can be no question that the Rs. 1,000 minimum is now a serious hardship." Since then, there has been no such drop in prices as to justify a corresponding reduction in the exemption limit. With the recommendations of the Lee Commission staring in the face, it would provoke a storm among the lower grades of the services if any such step should be taken, though non-service men are entitled to as much consideration. Even as a political experiment it may best be avoided.

The relatively high exemption limit, which it would not be desirable or expedient to lower till the prices fall to a level approximating the pre-war rate, deprives the validity of any plea for further allowances, abatements of differentiations on account of earned incomes, joint earnings of wives and husbands, and of children, house-keepers and dependent relatives. In some countries, these are taken into consideration before the taxable income is arrived. If the principle of making allowances for children, housekeepers, and dependants is admitted, it will have to be allowed practically in every case, and it is far better to keep a higher exemption limit than make deductions for these items. The need for differentiation between bachelors and married men will not arise in India at all events in those lower brackets, where alone the concession is allowed even in the United Kingdom. Marriage is held as a compulsory sacrament, and any discrimination against bachelors will assuredly be unproductive. With regard to the joint earnings of husbands and wives, the problem of a personal allowance is not likely to arise for a considerable length of time. The age of chivalry may be past, but even as an economic necessity, that man, who thinks that his wife should earn a living to support him and his family, deserves no preferential treatment. The function of a woman is different in life and certainly more interesting than money-making. The United Kingdom gives an allowance of one-tenth of the earned incomes, subject to a maximum of £200 for any one individual. Secretary Mellon of the United States has proposed to the Congress differentiation of 25 per cent on earned incomes compared with investment incomes, as "the fairness of taxing more lightly incomes from wages, salaries and professional services than the incomes from business or from investments is beyond question. In the first case, the income is uncertain and limited in duration; sickness or death destroys it and old age diminishes it. In the other, the source of the income continues; the income may be disposed of during a

man's life and it descends to his heirs". That is to say, so long as a man "earns" he will pay a lower rate, and when after retirement by old age or sickness, he invests his savings, he must pay a third more. But the problem is not acute in India, and investment incomes have not reached a magnitude and proportion to earned incomes so as to warrant differential treatment just now.

The discrimination itself is meaningless when it is the professed aim of the Government to develop these habits of thrift and saving which are said to be wanting to a melancholy extent. It is to induce saving that the system of Post Office Savings Bank, Post Office Cash Certificates and other forms of securities have been brought into existence. A further extension has also been made in the issue of tax-exempt securities, which besides depressing all other securities, assure a certain source of income to the investor. These securities have for their guarantee the entire revenues of India and secure for their fortunate owners freedom from taxation, which is shifted on to their unfortunate brethren, who might be unwilling, or what is more true, incapable of absorbing the loans. The penalty for such inability is an involuntary contribution by way of increased taxation. The evil has not grown in India to the extent it appears to be rampant in the United States; but the inducement has put a premium upon idleness and withdrawn a considerable amount of capital which would have been better for investment in productive industries. It has further had the effect of raising the rate of interest throughout the country where the price for money is abnormally high. A tax-exempt security at 6 or 7 per cent is a veritable goldmine for many a timid capitalist, and where hitherto he was lending money on easy terms he wants to drive a hard bargain. Cheap capital is essential for the agricultural industry; tax-exempt securities make it dearer by purpose. The bounty given at present to those whom the Government want to be their creditors must be removed, if only to lower the rate of interest for internal loans. It might not be possible to raise the required loan on as easy terms, but the extra cost will be spread over all tax-payers and will not be confined to those classes who cannot honour the Government by subscribing to their loans. The larger the security, the greater the saving for the investor in the graduated scale of income and super-taxes that he will otherwise have to pay, while the issuance of such securities offers a premium for governmental extravagance, which in the end falls on the general tax-payer and relatively highly on the non-investing public.

The problem of evasion is one of the most difficult things that confront the administration of the tax. The dishonesty of those who conceal their capacity puts an extra tax on those who reveal it, and the income-tax has therefore become a by-word of reproach as a tax on honesty. To a considerable extent the reproach is true, but the difficulties are being slowly overcome. The introduction of simplified forms of accounts is not likely to improve the state of things. It is not as though the tax-payer does not know he is making a profit or loss; and there is no need for the use of presumption in levying the tax. On the other hand, those who give false returns do so deliberately, and it can only be improved by the manner suggested as to the reorganisation of the revenue staff. The more important forms of evasion are the direct result of some statute or another. The familiar form of tax evasion is for the lender to take a usufructuary mortgage of the property and lease it to the borrower. There is really no mortgage and lease, but a clear money-lending transaction. In face of the documents, Income-tax Officers are reluctant to assess the lender to tax. The Income-tax Act itself provides for a kind of evasion, the meaning of which is not obvious. A "registered firm" is exempt from super-tax, unless the proceeds of each shareholder exposes him to the liability and the partner can also be assessed for income-tax on his share of the income. But an "unregistered firm" is liable to pay rates of income and super-tax as if it were an individual. The distinction between the two is only that the one has done a formal act of registering itself before the Income-tax Officer and the other has not. An "unregistered firm" can evade the law by registering itself. The rationale of the distinction is not clear. The ingenious conversion of families into companies to escape the rigidity of the income and super-taxes, to which Sir Basil Blackett referred this year in his budget speech, is only an instance of the immemorial rivalry between the tax-payer and the tax-gatherer, the one trying to outwit the other; but the best remedy lies in reducing the chances of such conversion to a minimum by avoiding discrimination in the rates. The greater the disparity in the rates between individual and company incomes, the more active will human ingenuity be to correct it.

The problem of double taxation has been settled at a recent conference of the representatives of Great Britain, the Dominions and India. It has risen out of the difficulties of each portion of the Empire having income-tax laws of its own, whose rates are pitched on by no means a moderate scale. The income is earned in one place, invariably in the Dominions and India and spent in the United Kingdom. The reverse is not generally the case. The income is naturally attacked for revenue in both places. Section 49 of the Indian Income-tax Act gives relief to those who are so hit, and under it the maximum payable by the tax-payer is at the higher rate. If the tax is paid in the United Kingdom relief is obtainable in this country. In practical working, it so happens that a good portion of the relief falls on the Indian exchequer by calculating the rate on the "part" of the income and not on the "amount" of the assessed income. The basic period in Great Britain for assessment of companies is three years and in India the year preceding the year of assessment. By this arrangement a good portion of the tax collected in the United Kingdom is refunded in India. If the relief allowed is on the "amount" taxed twice, the relief might be considered equitable; but as it relates to the "part" of the income, a good portion of the United Kingdom tax will have to be paid by the Indian exchequer except in those years, when the "part" on the three-year average is greater than the income derived in India during the year of assessment. The maximum of such relief may not, of course, be more than half the tax paid in this country; but it makes considerable difference all the same. When the same sum is not earned every year, the duty chargeable on the basis of the earnings of a three-year average will be considerably less than that chargeable if it were earned in three successive years—a circumstance which renders desirable the introduction of a three-year basic period for trades, though it has its defects. Where the tax paid in the United Kingdom is less, the relief claimed in India will be greater. If the tax-payer is to be relieved against double taxation, it is necessary that the relief is confined to the actual "amount" of assessed income in respect of which it may be claimed.

But what is the principle on which the Indian tax-payer is called upon to give the relief and why? Double taxation is not a peculiar feature of the British Empire, and it has been in operation for years in the United States and other Federal Governments. How does it differ in principle from raising the same tax, though at varying rates by both the Federal and State Governments? In the United States, the Federal and State Governments levy taxes on incomes and inheritances in violation of inter-statal comity. The very principle of putting a surcharge upon the same source of revenue, where there cannot be strict division of sources of revenue between central and provincial administrations, recognises the principle of double taxation. Not only is the Indian tax-payer compelled to shell out year after year a decent portion of the revenue to the relief of the United Kingdom, but even the important source of interest on sterling debt paid in England escapes taxation. It is needless to enquire whether under the strict interpretation of the Act, it is not liable to tax, as the income out of which the interest is paid, certainly "accrues" and "arises" in British India. The immunity from taxation given to the interest receivers on our sterling debt in the United Kingdom, and the refund to the tax-payer in relief of double taxation, raise the issue whether the tax is related to the taxable capacity of the people or not. Sir Josiah Stamp cuts the Gordian knot by holding that the tax itself must be divisible into two parts, one part being a flat rate where the income arises on the benefit principle, the second part being a graduated rate where the assessee resides on the ability principle and a combination of both if the tax-payer resides where the income arises. It is a compromise between two conflicting views. France has been bold enough to solve it by not charging income arising out of France. The United Kingdom cannot be so magnanimous even if it can afford to. Assuming that it could not, that is no concern of this country as the investment is made and the income earned with the full knowledge of its liability to tax. The interest on the sterling debt is also chargeable on the principle laid down by Sir Josiah Stamp as the income accrues in this country though it may be paid elsewhere.

The Revenue from Customs.

The customs have long been the principal source of revenue excepting land. Since the final reformation of the duties which culminated during the finance membership of Sir Evelyan Baring in 1882, the main purpose has been to raise the necessary revenue. A moderate revenue duty of 5 per cent continued to be levied till the War necessitated increase as a measure of emergency taxation. In 1921, when Sir Malcolm Hailey raised the general

ad valorem duty from 7½ per cent to 11 per cent, he said that "our tariff is purely a revenue producing tariff which, whatever may be its defects here and there on any particular trade, is admittedly not devised with any object other than that of revenue." He urged that there should be no departure from it until the whole of the fiscal policy was thoroughly and exhaustively examined by a competent and impartial body. The matter was therefore entrusted into the hands of a Fiscal Commission of eleven members, whose inconclusive report has practically left the question where it was. By a majority of one, the Commission recommended the adoption of a policy of "discriminative protection"—a terminological inexactitude—while the minority voted for unqualified protection. The only result of the labours of the Commission was the perpetuation of itself under the nom-de-plume of a Tariff Board, whose object is to explore avenues of a rapid industrialisation by means of protective duties or direct State help by bounties. The zeal of the Board has not so far succeeded in ferreting out any good number of industries deserving of special crutches to enable them to walk, apart from what is furnished by the high revenue duties already in force.

It is needful to have a clear idea as to the ulterior object of customs duties, especially in those cases where they cannot be both protective and productive. The Fiscal Commission do not discuss in their report the effect of their policy of "discriminative protection" on the revenues of the country: they do not say what industries demand protection and to what extent. Nor does the dissenting minute help one very much. The majority report recommends the removal of certain duties, especially on coal, semi-manufactured goods, hides and skins, raw materials, machinery and tea. It does not say how the fall in the receipts is to be made good and what articles could bear an increased duty to encourage internal production. The effect of an import duty on sugar of 25 per cent has been already dealt with; but it may be arguable that if an import duty of cent per cent were levied on Lancashire goods, without a corresponding excise, the music of the *charka* may be louder and more enchanting than the music of the heavens. But Mahatma Gandhi hates mill-made goods of Bombay and Ahmedabad and Lancashire with strict impartiality. The excise on mill-made cloths will be retained by him in his fiscal system in order that the *charka* may thrive. Is a policy like that to be pursued? The revenue of six crores which imported cotton goods give may then have to be abandoned in great part, though Bombay and Ahmedabad may be compelled to wring out more than a piteous crore and three quarters. Will a similar policy with reference to other imports yield similar results? What will be the result of an intensive protective duty on matches, cotton yarn and thread, mineral oils, metals, yarn and textile fabrics, and other wholly or mainly manufactured goods, on the public revenues? Will the diminution of imports be compensated for by any increase in the duty and also on the incomes derived from those who may supply indigenous substitutes for them? Or like sugar, will they only raise the price and starve the consumer?

In the absence of a clear lead as to the probable industries that may stand to gain a protective duty with ultimate economic gain to the country either from the "thorough" or "exhaustive" enquiry by the Fiscal Commissioner or the more acute labours of the Tariff Board, it may safely be presumed that an immediate revision of the fiscal policy is not called for, and the ulterior object will have to be suspended till conditions of industrial life mature and call for a change. The steel and iron industry which had exceptional opportunities for establishing itself on a firm basis has had to go a begging for temporary relief, and it is generally believed not entirely because of "dumping" by countries with depreciating currencies. It has begun self-examination, a sure road to improvement, and perchance the result may be to eliminate the need for State help earlier than we might expect. It is generally held that the announcement of the adoption of a protective policy will give a fillip to industrial development. If words had such value, it might easily be done; but unaccompanied by acts they are scarcely likely to achieve anything. The pre-requisite of collective sacrifice is an aptitude for industrial life and a copious equipment of technical skill and scientific knowledge. It is not that capital is shy or labour dear, but that the leaders are conservative. A well-thought-out proposition has seldom failed to evoke an encouraging response, and the large number of mushroom companies started during the "boom" years that followed the War testify to the willing co-operation the community is prepared to offer. If the pioneers are ready, the followers are many. It is therefore idle to contend that a mere change in the fiscal policy would be accompanied by a rush of retired or latent talent to spread the country with a net-work of industries. It is unfortunate that

the fiscal system should be tampered with at a time when full economic advantage cannot be derived, and the only possible result can be an extraordinary rise in prices and cost of living. A temporary sacrifice may even be justified if there is some chance of an early writing-off of the loss; but it would be criminal folly to waste national effort and economic energy in the off-chance of reaching an industrial ideal. For the nonce, we have learnt at a cost of three and a quarter lakhs on the Fiscal Commission, and a good recurring sum till the Tariff Board is wound up, the simple lesson that empericism is not the final word in industrial finance.

Revenue being the only consideration which should actuate Government in regulating their fiscal policy, one must turn attention to the question whether the prevailing scale is too high and has had any appreciable effect on consumption. It must be stated that no inference can safely be drawn at present from trade figures by reason of the fact that the period of the rise in duties has synchronised with the period of a fall in foreign prices. The full effect cannot be measured till a steadier price-level here and abroad has enabled us to test it. High exchange will to a considerable extent mitigate the effect of high import duties, and the countries which have depreciating currencies can also afford to sell us goods a little more cheaply. Referring to the criticism of the assessment of a 30 per cent duty on the so called "luxury" articles. Sir Basil Blackett argued that the contention that lower duties would have shown better results was scarcely borne out by figures. The principal articles so taxed are motor cars, silk manufactures, glass bangles and beads, and tyres and tubes. Except in the case of silk manufactures—which of course were affected by the duties—the quantities imported after the increase in duties were in excess of those before. But the contention of the critics is that, having regard to the fall in prices, the imports would have shown a still further increase. The downward course of foreign prices has obscured the effect of the duties on the volume of imports. In comparing statistics of imports and exports quinquennial averages must be taken, and the last five years have been too much disturbed to give any reliable lessons. Two things, however, may be remarked. Firstly, the articles subject to import duties are either not manufactured in India or could not be manufactured without added cost, or those for which effective substitutes could not be found. Secondly, we do not possess a monopoly or semi-monopoly in any of our exports sufficient to compel the foreigner to bear a portion at least of our import duties. They are therefore borne entirely by the Indian consumer, and he has shown his decided preference to the precious metals—which are tax-free—in place of taxed manufactures. During the last two years we have imported more than a 100 crores worth of precious metals, of which over 60 crores came this year. And the cry is, still they come. If the import duties were 5 per cent *ad valorem*, the consumer would spend an additional 25 crores each year on European manufactures, and incidentally release a good portion of the precious metals to relieve the over-worked paper currencies of Western and Central Europe.

The disastrous effect of this forced "dumping" of precious metals has scarcely been realised by those who pretend to be the friends of European civilisation. The charge is undoubtedly true that the East is the sink of precious metals, if by that it is meant it consumes more than what its ability can justify. *Per capita* the consumption is not greater. When the ablest financial brains are at wits' end as to how best to secure to a reconstructed Europe a stable monetary standard, the path of wisdom does not seem to lie in the direction of deflecting a free flow of the precious metals to the Eastern hoards. Statesmanship in finance does not consist in mere book-keeping and auditing correct entries, but in so regulating the finances that the utmost possible utility is obtained by the people in exchange for the tax they pay. The heavy import duty of which the free and unfettered ingress of untaxed precious metals is the necessary consequence, is a source of economic waste all round. Externally, it deprives the manufacturer of a market which has to curtail its demand by reason of the price, and in turn reduces his capacity to take the normal volume of Indian exports. Internally, it raises the price of all imported goods, which has a sympathetic action upon the general level of prices. The incoming precious metals, to the extent they are not buried underground or moulded into ornaments, complete the ruin, which sympathetic price adjustments have begun. And more than all, a depleted Europe finds herself unable to put her house in order, raise the necessary credit and find the capital to provide herself with the food and raw materials so essential for her economic resuscitation. Why, for the fetish of balancing the budget and

keeping the debit and credit entries correct, a high import duty is encouraged and tolerated by British Statesman is not clear, unless it be that long views of economic problems are the privilege of the student in the cloister and are no concern of the practical administrator. For an exceptionally poor people, cheap imports, which the removal of all obstacles in the way of international trade can alone guarantee, and steadily increasing exports are of fundamental importance; it is all the more important when local supplies cannot be sufficiently substituted for the imported articles.

The Fiscal Commission were impressed with this economic result of high revenue duties which tend to be protective and held it was open to great objection. "Since 1916", they wrote, "the tariff has been less and less consistent with purely free-trade principles. It gives protection, but it gives it in the least convenient and the least beneficial way. . . . It appears to us therefore that the necessity for raising a large revenue from customs duties on the industries of the country must inevitably lead India to the adoption of a policy of protection as they led Germany in 1879". An enquiry as to the need for raising large revenues from customs was beyond their scope and was not made by them. And as the possible sources of revenue from customs under a policy of discriminative protection are limited only to certain manufactured goods, tobacco and liquors—coal, raw materials, machinery, cotton yarn and semi-manufactured goods being exempted—it does not appear that the loss of revenue could be made good by protective duties on the imports chosen for attack. The Commission do not say whether a general revenue duty of 15 per cent is reasonable, but the canon they lay down seems fair. They say: "When protectionist considerations do not arise, we see no reason why the Government should not impose revenue duties in accordance with the recognised principles which govern such taxation. When a large revenue is required, it is generally found that taxation has to be imposed on articles of almost universal consumption, which may be classed as necessaries, but in general the necessaries of life should be taxed as lightly as possible. High duties may reasonably be levied on luxuries, provided care is taken that the duties are not pitched so high as to pass the point of maximum productivity". The articles of universal consumption are cotton goods, food and drinks, and sugar, and these may yet bear a heavier burden before they reach the point of maximum productivity. If the tax is increased, they cannot at the same time be light. The fact is that while unqualified protection has its dangers, discriminative protection cannot be enforced consistently with the needs of revenue and in a manner calculated to bear lightly on the general consumer.

Having regard to regressive character of the customs revenue, which falls more heavily on the poor, who have to spend on the taxed goods a larger sum than the rich, and the need felt for the articles generally imported, whose place cannot be filled by internal supplies, it is necessary to reduce the duties to the pre-war level and to restrict the number of dutiable articles to a minimum. As the Fiscal Commission point out, all raw materials and partly manufactured goods ought to be duty free along with coal and machinery. Articles in which there is no internal competition should also in the interests of the consumer be allowed the same concession unless they are classified strictly as luxuries or harmful things. The low revenue duties must be confined only to those articles of universal consumption in which there is internal competition, without a corresponding excise, in order that they can get such advantage, as the revenue duty may allow for ulterior purposes. A high protective wall will not block the starting of alien concerns manned and worked with alien capital like the American combine, which is endeavouring to put up a number of match factories in India, which a needlessly offensive protectionist policy has brought within its ring. It is not violating strict free-trade principles if no excise duty is imposed upon home production to countervail the effect of an import duty upon the competing article. Such protection as a revenue duty can give is incidental to every trade, and there is no sense of revolting against it as against any other natural facility which the manufacturer may have. If the foreign competitor feels hurt, it is open to him to change the nature of his supply; he can ship those goods in which there is no local competition, and which therefore may be admitted duty free.

This takes us naturally to the cotton excise duty which has behind it a history of its own. The cotton manufacturers of Bombay are as firmly convinced that it is an instance of the arm of political domination being used for enforcing economic servitude, as British merchants are convinced that it is only putting into practice an economic truism in which they themselves have absolute faith. Into the political history of the question it were vain to

enter; everyone is by now familiar with it. From the strictly economic point of view an excise duty can be justified only if the maximum of internal production is reached, or there is such a combination of internal producers that the benefit of the import duty will be entirely appropriated by them and the general consumer will be the ultimate loser. In that event, the local manufacturer will put up the price to the extent of the import duty, an evil which may be legitimately prevented. That the mill-owners who are naturally keen businessmen should consider dividend as their first and last objective is not in itself a vice. When the industry is capable of expansion, as the history of cotton industry has shown it to be, the growth of competition will naturally bring down prices. Apart from the fact that Bombay competes with Lancashire to an inconsiderable extent, and the excise cannot be justified even on free-trade principles on the non-competitive goods, her real rival now is Japan, which even levies a consumption tax to capture foreign markets. Bombay has a further competitor in the hand-loom weaver, who is not yet killed and is known to supply a considerable portion of internal demand. The language of exaggeration has its limitations, and to say that the removal of the excise duty will be giving a practical bounty to the cotton magnates is to ignore the difficulties that beset them and minimise the competitive conditions under which alone the industry can raise its head. That Japan should be in a position to beat Bombay in her own market must needs make one pause for a while: it is necessary to find out wherein lies the wastage. While the mill-owner will doubtless look into it and subject his methods of production to a more efficient test, the State should not by its fiscal methods impose an artificial burden which fetters its natural development. The soil is not unsuited for healthy growth of the cotton industry, and there will be no waste of national effort even if the industry secures a temporary advantage which the revenue duty will give; and the very high dividend which the mill-owners may derive will supply the spur for further expansion and lower prices.

There only remains the question of export duties as a source of customs revenue. Out of a total of about 45 crores, about 5½ crores are raised by duties principally on exported raw hides and skins, on tea, rice and jute. After considering the question from all points of view, the Fiscal Commission came to the conclusion that high duties could not serve any ulterior purpose and recommended a low revenue duty. The report on this branch of the tariff problem appears to be unanimous—the dissenting minute does not dispute the recommendations—and certainly wise. There is no greater handicap to the producer than an export duty, unless he happens to be in a position to exact a monopoly price which seldom happens to be the case. A high export duty leads to substitutes and reduced consumption, unless the producer is willing to shoulder the whole or part of the burden. It is possible that in times of exceptional demand a moderate duty can be passed on to the foreign purchaser; but it cannot be a recognised feature of the tariff policy. If there is a powerful combination of exporters, they may even shift the entire export duty on to the internal consumer. It should not be surprising if the Indian consumer of tea or jute, paid a portion of the export duty on the same. Even with reference to jute, an industry in which we have flattered ourselves to have a monopoly, with the discovery of a new process of extracting coir cheaply from cocoanut, which will supply fibre for manufacturing sacks at a third of the cost of manufacturing them with jute, the monopoly bids fair to disappear. The progress of science sooner or later makes possible the substitution of cheaper varieties for taxed commodities the certain chance of a contracted market for them. Export duties have naturally ceased to play a useful part in a well-regulated fiscal system.

The Revenue from Monopolies.

1. *Excise on Liquors.*

On no question of social polity are the view-points of Europeans and Indians likely to differ more fundamentally than on the consumption of intoxicating liquors. It is not that prohibition, total abstinence, local option and such measures are not European devices to check the drink evil, anymore than it is open to those, to whose ancestors the *soma* juice was not a foreign importation, to hold that they never heard of it till they came into contact with the gross materialism of the West. As a practical measure, the liquor traffic is sought to be controlled elsewhere in the interests of the general consumer, whereas the ideal of total prohibition is deemed possible of realisation in India by means of State regulation. There is no denying that the prohibitionary movement has the general and widespread sympathies of a large section of the community, as the drink habit itself is confined to the lower orders of society, and to a limited circle of the

higher order which has aped the manners of the West. But it is underrating to an extent perilously near madness the vested interests created by the liquor traffic, if it is thought possible to efface the excise revenue from the fiscal system altogether. About twenty crores of annual revenue is involved in the abolition, and it would be a labour of Sisyphus to tell the men who have the vote that they have no business to ruin themselves by the deadly poison of toddy or arrack and must turn to a life of plain-living and high-thinking. But it seems to be universally held that public opinion can control and ultimately check the drink habit, if only the Government refrained from throwing temptation on the way of the consumer, a view of life which practical financiers who know and feel the weakness of men and women to vices of sorts do not readily fall in. More modest in their ambition, they desire to control what we desire to remove.

It is unfortunate that the movement that was started a few years ago to enforce prohibition by peaceful picketting was not allowed free scope to test the possibilities of success of a mass movement for moral reclamation. It was spoilt perhaps as much by the zeal of the picketeers as by the enthusiasm of the tin-gods of officialdom. The upshot is that the Government have lent themselves to the charge of professing a policy which they do not care to pursue. An undisturbed effort on the part of prohibitionists would have served as a much-needed corrective to many of our notions, and it should have been gladly welcomed by those who have the moral uplifting of the fallen men and women at heart, but who only grope for way out of the unfathomed pit. If the Government reserved to themselves the glory of abolishing the vice, of course, they were entitled to do so. The excise is a transferred subject in charge of popular Ministers responsible to the legislature. But so far, the Ministers have been obsessed by the bogey of finance as much as their predecessors in office, and while sympathies are showered in plenty, they are scarcely disposed to forego the very fund which must keep them going. The prohibition movement had at least the historical sanction behind it, that great social and moral revolutions have taken place in the past without blood-shed and rapine, with or without the powers-that-be by the sheer strength of the spiritual force of the leader. Such movements as those led by Budha, Sankara, Ramanuja and Chaitanya have effected far greater reforms than was aimed at by the modern reformer. Whether it had the elements of success now was unhappily not to be tested, and, what is more, the attempt is not likely to be repeated. Better far to concentrate attention in awakening the Ministers-in-charge to a sense of their duty than picket innocent shops and ignorant vendors. After all there are less than a dozen Ministers to convert, if they have not resolved to remain unconverted.

To emphasise the obstacles that stand in the way of an early consummation of a dry India, is not to sympathise with the infernal habit of drink, though there is much to be said in favour of the view that it is in restraint of individual liberty to seek to interfere with one who argues, "I will be drowned and nobody shall save me." You can tell him that the habit leads to the worst of social and moral evils, to crime, poverty and disease; but if he replies he knows best, what right have we to impose upon him a code of our own? There are degrees and varieties of evils and, after all, vice is only virtue in *excelsis*. There are people with whom alcoholic liquor is of daily use and who have all the same kept as good morals as the total abstainer, and there is no reason why their action should be condemned by those who are victims to vices of a more debasing kind. If it is thought expedient for the State to meddle with articles of consumption, not for the purposes of revenue, but for certain ulterior purposes, where do we stop? Will it not be giving a premium for State interference in habits of life and human conduct which perchance may look wicked and bad, but are really innocent and not so dangerous as they seem? After all, liberty is not an end in itself, but a means to the comfort, happiness and enjoyment of all social benefits which society confers on the individuals thereof. But extended restraints which prohibition, for example contemplates by the employment of the power of the State, may kill the very benefits which they seek to secure. You can no more make a man moral by an act of Parliament than keep a woman chaste by locking her up in a *zenana*. Over-zealous advocates of prohibition will have therefore to see whether State interference is just means of getting rid of the drink evil, and whether it would not have a better and safer foundation on the faiths and beliefs of the people, the moral consciousness that comes of individual conviction.

Considerations like these make it advisable to avoid an aggressive advocacy of compulsion by State. That the addiction to the drink habit is with many an evil cannot be denied, and the more legitimate and proper function of the State would be to restrict the use as much as possible by way of help to the temperance reformer, than totally prohibit it by means of a legislative enactment. State help can at best be an adjunct to individual effort instead of the propelling force to put the evil down. There are two further difficulties which stand in the way of compulsion that seem to be ignored by prohibitionists. There are those on whom religion does not impose a bar to the use of alcoholic liquors and who are habituated to it by long usage. An increasing number of foreigners who may temporarily sojourn here have their wants to be satisfied, and you cannot tell them, "You are not wanted here unless you keep dry". If you license vendors for their benefit, you cannot prevent others from taking advantage of it. Again, the less intoxicating varieties of drinks are easy of illicit manufacture and hard of detection. Even now one comes across a number of instances where tree-tapping on a more extended scale than the Abkari department is officially aware of is widely practised. A more vigilant army of officers will have to be told off to watch illicit manufacture. Whereas there is a certain chance of revenue being lost by prohibition, there is no similar chance of eradicating the evil outright. The consumption now confined to the shop may be carried to the hearth; and you cannot keep every household under surveillance. Whether it will not ultimately lead to wholesale corruption and demoralisation is a matter which does not deserve to be lightly brushed aside. The vast territorial area that will have to be guarded, the extent to which the evil has spread among the people, the ease with which country spirits admit of illicit manufacture and more than all the co-operation among many of the licensees in villages to keep down the price of vend, render impossible an effective application by State of its power to enforce prohibition by such expedients. The classic instance, which McCulloh gives as to how high rates led to fraudulent evasion by two enterprising distillers who discovered a new process of manufacture, ought not to be forgotten as to how human ingenuity will try to evade any law, which has not the moral sanction of the people, for whose benefit it is devised.

The policy of the Government has been defined long since. They declare that they have no desire to interfere with the habits of those who use alcohol in moderation. That is regarded by them as outside the duty of Government, and they hold it necessary to make due provision for the needs of such persons. Their settled policy, however, is to minimise temptation to those who do not drink and to discourage excess among those who do: and to the furtherance of this policy they agree that all considerations of revenue must be absolutely subordinated. This is as far as the State can be expected to go. They do not oppose prohibition as such, as it is open even to those who use alcohol in moderation to give it up. They go, however, farther than those who would limit interference only to the extent of raising the maximum revenue leaving the ulterior object to be realised as a subsidiary result. They even contemplate a state of things when the revenue can be abandoned, if abstinence can be enforced by throwing impediments in the way of supply. In a recent resolution, they lay down the manner in which the object can be realised thus: "The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible, to raise it without stimulating illicit production to a degree, which would increase instead of diminishing the total consumption, and without driving people to substitute deleterious drugs for alcohol. Subject to the same consideration the number of liquor shops should be restricted as far as possible and their location should be periodically subject to strict examination with a view to minimise the temptation to drink and to conform as far as it is reasonable to public opinion". The policy and the method of carrying it out are admirably laid down; but the proof of the pudding is in the eating of it. The duty has been periodically raised as much by the compelling needs of finance as in genuine pursuance of the policy; but a similar zeal in adopting other measures has not been disclosed. There has not been an appreciable reduction in the number of licenses issued, in the quantity consumed or in the number of people who consume them: nor has any indication been shown to consult local feeling in the matter of location of shops. A courageous policy of effective control is nowhere initiated; at best there has been a fitful effort at tinkering with recognised methods of reform, when public pressure is strongest.

The only alternative to the present system of semi-monopoly that has taken the field is local option; but it is doubtful if that alone is calculated to achieve the object the State and the subjects have both in common. So long as the excise department was in the hands of an alien administration, a bold policy might have been misconstrued by the consumer; at all events, the Government might have thought it open to such misconstruction. If the ministry is not an extended wing of an immovable bureaucracy, a definite policy of complete monopoly of the distillation and the sale of liquor could have been boldly adopted and vigilantly pursued; and one does not know if anything short of such a monopoly could achieve the object. That such a monopoly is feasible does not seem to admit of doubt. It should certainly be possible to manufacture in some suitable place or places the requisite quantity of liquor now manufactured by so many licensees in their distilleries and at a cheaper price. Having assumed complete control of distillation, they can regulate the supply, and by so adjusting the prices gradually and progressively, make it impossible for those except the rich to avail themselves of its use. The price may have to be varied and revised in response to the economic condition of the consumer. For that end, it is needful that there is one central department, which will be in sole charge of the manufacture of alcoholic liquor and its supply at a fixed price and watch the effect of the policy on the consumer. Whether a single factory or a number of factories may be needed to satisfy the needs of the country may best be decided in consultation with those who are in the trade; but even if there should be a number of such factories, it is desirable that the Government should assume complete control of production and that is best done by the Central Government. A single and undivided authority will be better able to watch and regulate supply with a view to gradual reduction and ultimate extinction of the drink traffic than a number of administrators, who in their anxiety to rescue the finances of their province from paralysis manage to forget the health and morals of those, whose interests they are called upon to safeguard. So long as the excise happens to be a growing source of revenue with provincial administrations, so long will they fail to respond to popular opinion in the matter or effect a radical cure of the evil.

The next step that is desirable to take, after complete assumption of monopolist production and manufacture of alcoholic liquor, is to leave the question of distribution entirely into the hands of local boards and municipalities. The right to vend, locate and sell them must be left to their unfettered supervision, management and control. These bodies, even under their present unsatisfactory constitution, may be said to be in closer touch with the people and have a better and clearer idea of the needs of their localities than any other official body than can be thought of, and they have a sense of responsibility which popular advisory councils may not be expected to possess. And in order to make their responsibilities keener and more onerous, a definite share of the revenue or what is better, the fees for vend, should be assigned for local purposes. This will give rise necessarily to a conflict of ideals, the ideal of prohibition and the ideal of effecting social improvements for which they are brought into existence. The result is likely to be an effective control of the drink traffic by the representatives of the people who know their needs, and whose opinions may generally be expected to echo the popular will. If the local bodies desire to increase their revenue, it is open to them to extend the number of shops or relax the hours of supply; if they desire to prohibit by slow degrees, they can carefully note the way in which that can be done. Either way, they will reflect the view of the consumer and of the general public; and assuredly they are better spokesmen than the perplexed Minister asphyxiated between two opinions, one for vote-catching and another for office-running. These two measures taken simultaneously promise to secure the realisation of the fundamental policy of the excise revenue, the minimum of consumption and the maximum of revenue.

2. *Salt.*

Another article which might well be the monopoly of State is salt. Reference has already been made to the incidence of the duty on the consumer and its effect on consumption. The economic aspect of the duty has of late been obscured by political dissensions and a reasoned discussion of its merits has been wanting. It is unfortunate that Sir Basil Blackett is partly responsible for it. Till Sir William Meyer was forced to increase the duty by four annas a maund as a war measure, it was fixed at a rupee which was eight times the cost of its manufacture. Sir James Meston, and Sir Malcolm

Hailey in the earlier years of his regime did not feel called upon to increase the duty. When the latter proposed to double it in 1922, the proposal was vetoed by the Legislative Assembly. The Finance Department has apparently nursed the insult, and when Sir Basil Blackett assumed charge, he renewed the proposal the Assembly had thrown out the year before. The Assembly stuck to its guns and the Viceroy certified the increased duty as being "essential for the interest of British India". Cheaper salt could possibly have disturbed the repose of easy-going financiers; but how it could have imperilled the "interests of British India" is not clear. In 1924 when there was a surplus partly due to the enhanced salt duty Sir Basil Blackett introduced the red herring of provincial contributions across the trail; but the Assembly voted for reduction of the duty to Rs. 1-4-0 a maund. This year again a proposal was made to reduce it by another four annas; but the Finance Member raised a Frankenstein in the annihilation of remissions in provincial contributions. Thoughtless legislators both in the Assembly and elsewhere succumbed to his threat and the vote remains not as a considered pronouncement on the duty but as a dishonourable surrender to the bribe, which in the shape of remission of provincial contributions, the Finance Member preferred to greedy administrators.

It is not proposed to enter into a discussion as to the comparative merits between reduction of provincial contributions and of the salt tax or even of the excise duties on cotton manufactures. The challenge is thrown out if the removal of cotton excise duties, or even a reduction of the salt tax can be guaranteed to reach the consumer. One may not be positive about it. But even a casual acquaintance with the financial acumen displayed by both the reserved and transferred sections of the Government till now makes one sceptic as to the benefits of a reduction in provincial contributions reaching those whom the salt duty and the excise on cotton manufactures penalise. If the remissions just enable them to pay off the deficits of the last two or three years, it is as much as they could feel thankful for. That, of course, is by the way. Salt being a commodity of universal consumption, the elasticity of whose demand is not proportionate to the ability of the consumer, it is a specially regressive measure of taxation. The poor are hit by it more than the rich. In the consumption of liquor there is an element of capacity or surplus wage which can be appropriated by the State without hurt to the consumer. The same cannot be said of the consumption of salt. The justification of this measure, as stated long ago by the Duke of Argyle, was that "it is impossible in any country to reach the masses of the population by direct taxes. If they are to contribute at all to the expenditure of the State, it must be through taxes, levied upon some articles of universal consumption. There is no other article in India answering this description upon which any tax is levied. It appears to be the only one which, at present, in that country, can occupy the place which is held in our financial system by the great articles of consumption for which a large part of the imperial revenue is derived". The noble Duke forgot that salt is not consumed as such, but is usually cooked in India with articles of food, every one of which is charged, and that heavily. Being necessarily a regressive tax, it is as well that the aim of the State is, as Sir John Strachey pointed out, to give the people the means of obtaining "with the least possible inconvenience and at the cheapest rate consistent with financial necessities a supply of salt, the quantity of which should be limited only by the capacity of the people for consumption". That is the test with which the duty on salt may well be judged and, if so, even a rate of one rupee per maund would be found to be too high. And it is easy to arrive at the normal rate, by adopting that at which the maximum of consumption is reached without avoidable waste.

But salt is not used merely for human consumption; it serves as manure for agricultural purposes and as food for cattle. In order to meet such demands it is needful that it is made available with as little cost as possible. In France salt required for cattle food, preparation of manure or improvement of the soil is free of tax if it is denatured by one or other of the prescribed modes. Cultivators in India are generally unaware of the process of denaturing or even of the application of denatured salt for agricultural purposes. The use of artificial fertilisers is not much in common. They have first got to be educated in the uses to which denatured salt may be put, and it is obvious that the Government must be prepared to supply denatured salt in proportion as the demand for it is appreciated and made. This alone would have justified the conversion of the salt industry into a complete monopoly of the State; but if for human consumption it can be cheaply manufactured, the monopoly of State cannot be objected to on any

economic ground. Among the objections to piecemeal reduction of the salt duty is the fear that middlemen and contractors would eat away the profit and not allow it to filter through to the consumer. A complete monopoly of manufacture and sale in depots in all district centres, the retail vendors being prohibited from selling above a fixed price in the interior—subject to the penalty of their license being cancelled—would be more economical than the present system which has failed even to preserve the Indian market for home-made salt. Of a trifle of over 9 crores of revenue from excise and customs, nearly 25 per cent is raised by the duty on the imported article. Liverpool is in a position to pay freight and other incidental charges in marketing the article at such distant places as Bengal and Burma. Although the price is the same, the imported variety seems to be purer, and that accounts for the preference of Bengal to foreign salt. A protective duty can only enhance the price of both the imported and local salt. What is required is the establishment of factories for large scale production, and if the Government take over and improve their existing factories in order that the requisite quantity of salt may be manufactured by them and sold to the people at a reasonably moderate price, the example of other countries would have given to them a practical justification of their conduct.

New Tax Proposals.

A number of new proposals have been made of late as to the additional sources of revenue that will have to be tapped in the event of the existing ones proving inadequate or undesirable. Some of them are purely fancy taxes, a desparate attempt to find a remedy for financial ills; others have the sanction of successful operation elsewhere. Among the more fancy taxes are those on dowries, marriages, entertainments and domestic servants. A tax on dowries will be evaded; but one on marriages may give a decent return; only the principle of taxing them is to be found in the counterpart of taxing bachelors. A more appropriate method would be to tax the rich for not rearing large families and the poor for doing so. An entertainment tax may bring in some revenue to important municipal corporations; but the people generally are not a nation of play-goers. It may not be worth the cost of collection. As for a tax on domestic servants, though it has the reputation of being recommended by the high authority of Dr. Marshall, it is not true in India, as is the case in the United Kingdom, that every eighth adult male or female is a domestic servant. Here again, the proceeds may not be worth the trouble of collecting. A tax on motor cars and bicycles is also suggested; but they already pay both recurring and non-recurring charges. On arrival they pay a customs duty of 30 per cent, and after arrival the toll for local boards, and a license fee for municipalities. Armorial bearings do not seem to be much *en evidence;* and in their place perhaps, a tax on titles may be recommended. A tax on betting would be giving fiscal recognition to an exotic vice, and one would gladly make it penal if possible. A tax on advertisements is approved by Sir Josiah Stamp; but it might in all likelihood kill newspaper enterprise, not financially very sound propositions even now. Auction sales may bring in some revenue if the inheritance taxes are introduced; otherwise they may not pay the license fee. A tax on club subscriptions would be specially welcomed by worried secretaries, if the tax-gatherer would kindly collect them on their behalf; else it will be only added to the arrear list. Such taxes, however, are legion, and they show the fertility of the brain and are based on no sound fiscal principle.

The more important taxes are a universal duty on inhabited houses on the owner and a universal income-tax embracing every income or, which is the same thing, a poll tax on every earning member of the family. Their counterparts in France were the *personel mobilier*. The personal tax was due from every citizen in France and every foreigner enjoying civil rights and not indigent. The *mobilier* was assessed according to the rental value of inhabited houses. Both of them were apportioned taxes raised from each commune, the tax-payers being first assessed for the personal tax according to the rates fixed for the value of a day's labour, and when the assessment fell short of the entire amount of the communer's quota, the balance being assessed upon the tax-payers according to the rental value of the dwellings they occupied. Leroy Beaulieu supported these taxes on the ground that a moderate tax "would dispense with indirect taxes upon such a necessity as salt; would make the people feel that the payment of a tax is a necessary accompaniment of the enjoyment of civil rights and would teach them that the Government can collect directly from the labouring classes at least a part of their share in the expenses of the State". Such a

reminder is politically necessary in all countries clamouring for democratic institutions. Even without that, the taxes can be justified. In this country municipal corporation levy a house tax on the owner which is usually shifted on to the occupier; and where there is no brisk trade in house-building, a part of the house tax will continue to be paid by the occupier. In rural areas, however, there is likely to be no such difficulty. They also levy a profession tax on a presumptive income which has only got to be extended throughout the local board areas. As agriculturists pay an occupation tax, it may not be that a decent sum can be collected from other professions which are strictly limited; but every *non-pattadar* may legitimately be assessed to a moderate sum if he is not indigent. This being in the nature of a personal tax, those who pay a business tax or an income-tax may be exempted. These two taxes may safely be recommended if not in substitution, at least in partial remission, of the various petty cesses, on land for the relief of local boards. A moderate rate levied and collected for village roads, village sanitation and primary education may not provoke much hostility, if the funds are specially earmarked for them and administered with scrupulous care. The National Tax Association of Chicago, which considered a plan of model system of State and local taxation, recommended instead a property tax and a personal income-tax, taxed not objectively as incomes, but as elements determining the taxable ability of the persons who receive them. Such a tax worked successfully in Wisconsin and Massachusetts and met with popular favour. The house tax and the profession tax are equally successfully in force within municipal areas in this country, and their extension to rural parts is likely to offer the line of least resistance.

The business tax is a necessary complement of the two taxes on property and personal incomes in the United States, and they have been in force since the Revolution in France, and also in Prussia. The distinguishing feature of these taxes in Europe was their extreme moderation, being about one per cent in Prussia on the earnings. In France the tax is levied according to the ability of the various groups into which they are divided, the rates in some larger *communes* being heavier. The businesses were classified in Prussia under four heads, the basis being the annual earnings of the capital, and the tax was graduated with reference to the estimated earnings. In many of the States in America, the taxes were levied as a privilege-license, and one State is said to have issued a hundred and nineteen licenses as a condition precedent to the transaction of any business. There are a number of such taxes even in this country, the most prominent being a tax on the legal profession or for sale of liquor. Naturally the smallest businesses may have to be exempted, those, for example, which will not pay a minimum of two rupees per annum. Obviously such a tax would be a proportional one and justified on the benefit principle as a fee for franchise. But the progressive principle is defended on the ground that it is the only true way of reaching greater ability on the "production" side of wealth. The American model is a steeply graduated tax, whose object is to produce the dynamic effect of checking business profits assuming the character of "profiteering". It was on the same principle that the excess profits duty was levied for a year in this country, and subsequently abandoned. The growth of large businesses with corresponding large profits are believed to have a special faculty which must be taxed on a progressive scale. But viewed as a business expense, a condition precedent for the making of profit, a moderate levy on the benefit principle would be the only economic justification for it.

The corporation tax is a common feature of the tax system in the United Kingdom and States in America, and though there are various methods of levying them, especially on public service corporations and on banks, they are invariably regarded as a tax on franchise. Corporations are said to have a special ability by reason of the capital they command, their limited liability and other privileges they enjoy and they have been taxed accordingly. In the United States, the rates have been based upon what is called the "corporate excess", which is the difference between the market value of the stocks, bonds and other tangible property, called the "true value of the corporate franchise" and the value of the property which might have paid taxation elsewhere, as in a neighbouring State to which its operations might extend. Public service corporations are generally taxed on their gross-earnings, though *ad valorem*, net earnings and capitalisation bases have also been used. Such corporations are not likely to pay any good dividend to public revenues in this country as the railroads and telegraphs are Government assets. But the telephone companies, banks, insurance companies, and a number of mining and manufacturing companies registered within this

country or outside and yet doing business here may very profitably be taxed on their capital stock. These stocks have all of them a market value and are quoted in the share-market. There should be no administrative difficulty, and it should be possible to know accurately the true corporate excess of every corporation annually and, subject to deductions for local taxation, if a fairly moderate tax is levied, it might bring in a decent revenue. Most of the corporations have their stock and share values considerably enhanced, and even as a tax on increment value it would be amply justified. But we need not go so far to find an economic justification for it. Property is legitimate source of taxation and this kind of property is as legitimate a source as any other. If corporations are to be taxed fully and fairly, there will be no business tax and the stock-holders and bond-holders will also be entitled to exemption from income-tax on that portion of the stock which has paid corporation tax to avoid double taxation.

The principle underlying these taxes are twofold: first, that every individual must pay a tax according to his ability, and second, that the basis of all taxation is income. Land, business and stocks and shares are only so many *indicia* of taxable wealth; ultimately the tax is paid by the person on his income. Principles of justice require that all sources of income must be equally taxed, though perfect equality may be unattainable. The present system of taxation presses unduly upon land and upon the poor, and any measure of tax reform must first start with giving relief to these. Whereas a considerable portion of provincial taxation falls upon land, the entire burden of local taxation falls upon it. The surcharge of 12½ per cent in the name of various cesses has got to be relieved, and in its place, a tax on inhabited houses and a personal tax on every individual not paying land tax should be unobjectionable. The universal inhabited house duty has been abolished in England, and a personal tax partakes of the character of capitation tax. But viewed in the light of a tax on professions, apart from business, it is not a strange device. These two taxes with the charge for vend of intoxicating liquor and deleterious drugs must be sufficient substitutes for the cesses. The business tax is only an extension of the personal tax, and it is not sought to be confined to profits arising out of it. It is only regarded as a tax for a franchise on the total earnings, a flat rate whether there is a realised profit or not. It must be regarded as a business expense, and if the business yields a taxable income, an abatement may be made for the business tax paid. This tax has got to be distinguished from the business profits tax which is liable for income-tax under Schedule D in the United Kingdom, or from that in the United States where a graduated scale is enforced with an ulterior purpose. The corporation tax is only a business tax in another form affecting an aggregate of persons. This also has got to be distinguished from the corporation profits duty, which was in force for a few years in the United Kingdom and abolished since 1924. But from the business tax it would differ in this respect that, whereas the former would be a tax on total earnings, the latter would be a tax on the market value of the stock and all assets of the corporation, except real property which might have already paid a tax. These taxes would, to a great extent, shift the burden to a class of people who now escape direct taxation altogether.

It may be confessed that nothing can be predicted with certainty as to the possible chances of shifting of these taxes to other shoulders or their economic effects on society. A small duty on inhabited houses cannot have any economic disadvantage, if houses of little value are exempted. This along with the personal or occupation tax violates the first maxim of Adam Smith. But it may be observed that direct duties such as these, even if they go the length of making labour inefficient, are preferable to the cesses on land and a lot of indirect taxes which the labourer pays, and which are the clumsiest sources of raising revenue in any scheme of intelligent taxation. The labourer may shift to the employer a portion of the duty or curtail a portion of his expenditure; it will depend upon their relative strength. The business tax regarded as a business expense may be shifted to the consumer. The extent of shifting mainly relies upon the presence or absence of a combine between producers or distributors. If there is a combination, it is more than likely that they will pass it on to the consumer in increased prices. In the absence of such a combine, competitive price may force it to stick to where it has fallen. Of the corporation taxes, however, it may be urged that it is only a proper attempt to attack for revenue a source which can very safely and without any injury to society pay its due share. It is as much a "surplus" in the Hobsonian sense, as the rent on agricultural land which comes in for a periodical revision or enhancement of its rate.

Local Taxation.

A much neglected field of Indian administration are the local bodies. The District Boards and municipalities are weakest in point of their financial stability and the onerous nature of their work, are starved for lack of funds. The Local Governments have been keeping them too much in their leading strings, but it is not true that the sort of control they now keep is good either for them or for the local bodies. It will not be denied that the experiment of Local Self-Government has not proved as great a success as one might wish for it, and that the best of local talent and patriotism is not devoted to its service. The political subordination which they enjoy may partially account for the lack of municipal enthusiasm; but a sense of civic virtue and independence is growing which must be exploited by placing these institutions on a satisfactory financial basis. The local boards largely depend for their revenue upon the land cess which amounts to two annas in the rupee on the land revenue. The municipal corporations also depend on real property for their resources, though a few license fees and taxes on professions supplement them. These are found to be insufficient in practically every local body and the occasional doles, which provincial Governments favour them with, are too erratic to be relied upon to meet the demands of the onerous and beneficial services appropriate for them to undertake. The system of doles is too common a feature with most countries where local bodies have strongly entrenched themselves upon a highly efficient people to be given up in this country where civic conscience is just beginning to develop; but a financial system ought to be devised, whereby they will not look to outside help, but content themselves with meeting their expenses out of their own revenues.

It is undoubtedly true that, as at present constituted, local bodies cannot efficiently undertake national or onerous services such as a widespread scheme of primary education, public health or medical relief; but one may well demur to the proposition that it is only by means of grants-in-aid from the general revenues that they can be financed. If the services may appropriately be managed by them, it is as well to give them such sources of revenue as may enable them to carry on the work entrusted to them. A haphazard scheme and occasional doles may not lead to economy or efficiency. The important duty of keeping the main roads, which are either the trunk roads or the arteries of the trunk roads, of immense strategic value, in proper repair, is left with the District Boards, and there is no reason why a source of revenue which may be of an imperial character may not be assigned in part to meet the cost thereof. Of course, extraordinary expenses may have to be met by capital expenditure or by special grants; but where the services are of a recurring character, periodical doles have a demoralising effect upon everyone concerned. It should be in the best interests of civic administration if the need for grants is reduced to a minimum and sources of revenue are assigned to local bodies, which in ordinary years may be expected to meet all recurring and essential demands. The ignoring of this fundamental principle has been responsible for the hopelessly inefficient manner in which their work is being performed. There appears apparently to be a conflict between two feelings which account for this unfortunate state of things. There is the feeling that there is not such a stimulus in the administration of onerous services as education, sanitation and road maintenance among the people, which would secure a minimum of efficiency; and there is also the feeling that the Government providing the funds should retain sufficient control over the expenditure of the grant, which would be against the spirit of Local Self-Government. The first has no foundation in fact; the second is purely sentimental. The result is the under-financing of the local bodies.

This is due to the notion that Government interference in local administration must be strictly regulated by their financial assistance. But in the interests of Local Self-Government itself a kindly and critical co-operation ought to be welcomed in place of officious interference. Local bodies can no more mortgage their liberties to official doles than the Government can surrender their undoubted right of control to a political shibboleth. Either action ought to be considered on its own merits. The strict administration of public finance is a matter which is not merely the direct concern of local bodies but of the State as well, and the annual independent audit of local and municipal finance, duly published with appropriate remarks of the executive head of the responsible local bodies is one of the effective ways of enforcing the control which the Government owe to their subjects. It is the pigeon-holing of the audit reports and the inefficient supervision over the steps that may or may not be taken in response to their

criticism, that account for a good part of demoralisation of civic administration where it exists. If the State is lucky in the possession of efficient students of public finance in charge of the local and municipal administration department, imbued with true spirit of civic freedom, they can certainly guide and control the destinies of these bodies throughout the year by helpful suggestions in removing doubts where they are felt and clearing obstacles where they are found. That would be a proper function of Government. The grant would be considered and dealt with on its own merits. Its appropriation is no more their special look-out than of any other item of budgetary grant. While the indirect control through the independent audit would create a zealous watchfulness on the part of the local bodies as to their financial condition, it would also save the Government as time advances a lot of petty interferences in matters of administrative detail. Local Self-Government ought not to degenerate into local despotisms; but it is equally essential that it ought not to become a branch office of a centralised bureaucracy. Financial control limited to the extent of financial assistance can only lead to it.

The question then is how to make these bodies self-sufficient. So far as the local boards are concerned, it has already been suggested that one of their principal source of revenue must be the fee for vend of intoxicating liquor and all deleterious drugs. The system of giving direct relief to local bodies from excise and from beer and spirit duties is common in the United Kingdom, and in the United States they are subjects of State and local taxation. For the purpose of preventing disease, poverty and ignorance caused by excessive drinking it is also fair that the excise revenue should pay its proper quota. The abolition of the land cess will certainly create a void, and in its place is recommended the imposition of an inhabited house duty and an occupation tax on non-agriculturists. It is not possible to estimate what they may bring, but the yield cannot possibly be less than the heavy surcharge on land revenue. These three sources of revenue must suffice along with the fees for tolls, ferries, markets, fairs and sundry other things which are already in the list of taxes. None of these sources may show automatic diminution or unexpected contraction till perhaps prohibition takes firmer root than now, a contingency which may not be immediate. And even if it was, the increased sobriety and savings of labour may be expected to give a stimulus to more efficient work and greater earning power of the worker. In that way, the house tax, and more especially the occupation tax, may yield a larger revenue. And when these are fully and fairly taxed, and only then, will there arise some justification for the restoration of a small cess on land.

The revenue of municipal bodies is raised on houses and on professions. The tax on houses and land is levied on the annual rental value, and the latter especially pays double taxation. Why this double assessment is maintained is explicable on no rational ground. One of them, it stands to reason, should certainly be remitted. As there is no special benefit derived by land remaining within municipal limits, municipal taxation must be abandoned. In most of the municipalities there is no exemption limit for house tax, and when a universal house duty is recommended for local boards, no exemption can be made within municipal areas, as house property is likely to derive a more tangible benefit from municipal outlay. If the valuation is fairly and fully made and revised every five years by competent assessors, municipal revenue will stand much to gain by it. In most cities house-sites are owned by the house-owner himself, and ground-value cannot be taxed separately. A quinquennial revision will certainly take note of the enhanced value of both the site and the building and in this way the unearned increment can be reached. A tax on transfers would affect the seller and depress the value of his property which is not advisable. But in fixing the rental value of the house, the sale price ought to be taken note of. As has been stated already, the house tax falls in the main on the occupier, and it is believed that it can be relieved against by legislative protection. It is ignoring the fundamental law of demand and supply. If the tax is to be credited in favour of the owner, there is nothing to prevent him from enhancing the rent. There are two conditions under which it is possible to defeat the greed of the house-owner. First, the house must be fully assessed; and second, the occupier must pay the full rent. If these two conditions are satisfied, legislative protection can beneficially be extended to the occupier. Otherwise, it would be the occupier who will eventually suffer. The business tax, which is the counterpart of the occupation tax in rural areas, as a substitute to the profession tax, will pay its due share

if properly assessed. The worst of profession tax at present is that it is levied in a haphazard way, and many persons escape from it who ought to get into its meshes.

Finance being the most essential feature of local administration, the question of fair and proper rating is one of supreme importance. In respect of the local boards, no special difficulty arises, and it will have to be done as now by the revenue department. The local boards being only agencies to expend certain moneys for certain services, they have not maintained a separate staff for the assessment of any tax. But in municipalities the assessment is made by the councils themselves, guided in their work by their own subordinate officers. The system requires to be brought in consonance with that obtaining in the sister bodies, and the assessing officers ought to be a body apart from the councils and their staffs. It would be helpful if an independent board of assessors can be created for the purpose of making the original assessment who will not be beholden to the assessees for their prospective votes. Elsewhere, for the administration of income-taxes, the suggestion is made for the appointment of a small body of honorary tax commissioners as a court of final appeal against the assessment of the revenue officers. And in order to make Local Self-Government a reality, a reverse process would be better by entrusting the original assessment to a body of assessors, the right of appeal therefrom being left to the municipal bodies at their ordinary meetings, so that due publicity may be given in cases of reduction or enhancement. It is surmised that there will not be full-timed work for these assessors, as they will have to revise the valuation of houses once in five years, though of course the business tax will be revised every year. A system by which the classes are divided in Prussia and assessed by a whole body of tax-payers may be tried with some advantage. It is possible that the assessors might co-operate and underassess, as the official assessors are said to do in the United States; but such matters will have to be done by somebody, and if a non-official board of assessors could be created apart from the councils, the experiment is worth a trial. If one such could not be formed successfully, of course, an official body will have to be created to do the work, the councils setting themselves up only as revising authorities over them.

It is obvious from what has been stated above that there is no essential difference between national or onerous services on the one hand and local or beneficial services on the other, which would afford a basis for differential taxation. The distinction is one without a difference. It might have been possible to draw a line of demarcation at a time when the village was separated by long distance and inaccessible; but the modern town extends outwards and has a tendency to merge into the adjacent villages. The one reacts upon the other and is easily interchangeable. The well-being of the town, its sanitary improvement and housing arrangements have a reflex action upon rural life, so that the tax-payer, as a general rule, is interested in the efficiency and development of the country as a whole and not by parts. It will be difficult therefore, to divide taxes into two categories—one peculiarly suitable for towns, and the other for the nation at large. Any discrimination against residence of urban areas may tend to discourage congestion and over-crowding in large cities. That might have its own advantages; but large cities have a place in the economic ordering of society, and it is as much in the interest of the village folk that cities which are the life-centres of all national activities are maintained at their expense as from out the special levies on towns-men. It is on that principle that grants-in-aid are made by all Central Governments to the relief of local expenditure and surcharges on federal or State sources of revenue are levied for the benefit of local bodies. The incidence of local taxation in India must be so regulated that it is not heavier than in rural areas.

A review of the Tax System.

It is necessary to bring these stray reflections to a close. Their object is not to indicate with scientific precision the incidence of taxation upon the general tax-payer or its ultimate effect upon the economic progress of Society as a whole. It were vain to make such an essay. No tax system has ever been known to be perfect, least of all one that has been developed in a haphazard fashion for over half a century. Even in highly cultivated socities all tax problems have been solved by a series of adjustments between competing claimants for equitable distribution. But here a retrospect of the past presents a less dismal appearance than the prospect of the future. A strong and incessant plea

for reduction of taxation is drowned in a cry for increased demand for expenditure in every direction good, bad and indifferent. A bureaucratic system of administrative control is anxious to absorb for its services as good a portion of public revenue as possible, and the partial introduction of representative institutions has so far met with no success in limiting the charge of over-administration. If the melancholy truth has to be told, the "brown bureaucrat has proved no less wanting in a financial conscience than his white compeer, and the ministerial claim for economy and efficiency has not yet begun its first chapter. Where the dignity of labour is dependent upon the salary that is paid, not on the character of the labour or his sense of public duty, a top-heavy administration must continue to grow more and more overpaid and underserved. A poor and impecunious people groaning under the weight of heavy and oppressive taxation have been praying for a load or two being taken off them; but they remain dupes of to-morrow even from their cradle. Like Alice in the Wonderland everything to them is topsy-turvy. The restoration of peace brought reduced taxation and cheaper food to the belligerent nations; but they brought increased taxation and dear food to the people of this country. A finance minister gloats over the equalisation of the budget, but forgets that it was brought about by practically doubling the scale of taxation in the short space of ten years. There is no sign yet of even a tenth of emergency taxation being taken off.

The most pitiable feature of the financial situation, however, is that the present scale of taxation has come to be regarded as a normal one, and any scramble over budgetary surpluses is who can lay violent hands on them, and not what burden may be lifted out of them. The unedifying fight over the disposition of the surplus for the current year between the claims for a remission of provincial contributions, the reduction of the salt duty or removal of the cotton excise duties, is a terrible reminder of the inequitable decentralisation of public finance, especially after the so-called concession of provincial autonomy. If the remission of provincial contributions was in its turn likely to be followed by a remission of emergency taxation at least in the provinces that got the doles, there should be some meaning in the fight; but this money is to be given as a sop to the Cerberus of transferred departments in order that a nation might be built upon the ruins of the tax-payer. A little reflection could show that this financial autonomy is only another device to enhance the burden of taxation. About nine crores of provincial surpluses were to be transferred under the Meston award and the Devolution Rules to the Imperial Government, owing to a re-appropriation of revenue heads between the Central and Provincial Governments. The reforms did not bring them out of nothing to the provinces. It was only a portion of the total revenue abstracted from the people of India as a whole. But the generous patriotism of the Central Government promised to make good the sum to the Provincial Governments, not by reducing the cost of administration or any curtailment of their scale of expenditure, so that the burden of taxation might be the same, but by imposing further taxation, and thereby remit the provincial contributions in a series of years. The transaction is nothing but a flagrant piece of penalty which the general tax-payer is called upon to pay for the liberty of locking up for a good part of the year a few hundreds of patriotic citizens in a dozen popular legislatures. In so far as the contributions were to be remitted out of extra taxation, not merely financial purity, but considerations of political honesty, would require the removal of such taxation. But when you create ministers even as ornamental figureheads, you must give them some money to spend; and why care how it comes?

The initial mistake is due to the conception that there is some necessary and automatic connection between the division of functions and the assignment of revenues. The controlling factor in respect of the former is administrative convenience and in respect of the latter is comparative fiscal need. The report of the late Mr. Montagu and of Lord Chelmsford, on the other hand, started with the notion that administrative division required for its success financial independence. "If provincial autonomy is to mean anything real", it said, "clearly the provinces must not be dependent on the Indian Government for the means of provincial development". With the conviction firmly settled upon them, they proceeded to divide the heads of revenue in a manner that would provide for Provincial Governments meeting all expenses for the development of provincial services. They felt that it could be done only by a re-arrangement of the resources which might not lead to equality; but held that though equality of treatment between one province and another must be reached as far as possible, it was not possible to extend it to individual heads of revenue. After discussing

various methods of distribution of the tax burdens, they resigned themselves to the acceptance of the inequality of burden which history imposed upon the provinces, "because we cannot break violently with traditional standards of expenditure, or subject the permanently-settled provinces to financial pressure, which would have the practical result of forcing them to reconsider the permanent settlement. But it is reasonable to expect that with the growth of provincial autonomy any inequality of burdens will be resented more strongly by the provinces on whom it falls". They left the matter to be finally decided by the first periodic commission as to the pace by which the more lightly taxed provinces may be made to bring their financial resources up to the level of strength of the rest, commending for their own part the importance of provinces adjusting their expenditure according to their resources, and not drawing indefinitely on more enterprising neighbours.

The obvious difficulties of carrying out such a policy have already been referred to, and it is only needful here to reiterate the conviction that such financial decentralisation is not possible of achievement, unless as a price for political separatism, in which case, of course, the matter is put on a different footing. But what is of more practical importance is the sum total of tax burden on the people. The incidence of taxation on each individual must be proportionate to his ability irrespective of the territorial area wherein he has his domicile. The Madrasee has no business to be mulcted in a heavier sum than the Sikh, or the Mahratta or the Baboo. It would be difficult to achieve anything like equality with a single tax-gathering administration. But when the payment has got to be made to two, the difficulties are likely to be formidable. They are apt to ignore the total incidence on the tax-payers contenting themselves with the lightness of their own levy. Nor is there any virtue in the Provincial Governments, each in its turn raising one or other of the sources of revenue left with them, instead of the Central Government levying it once for all. An increase of 50 per cent in fees for judicial or non-judicial stamps is as bad coming from a Provincial Government as from the Central Government. A single taxing authority is more apt to look to the burden of its tax system than a number of petty dealers, and it appears absolutely necessary to do away with amateurish attempts at tax administration and restore the rule of a single power. After all, the right to tax is not desired for show, but only to secure the requisite revenue for necessary expenditure. That has got to be decided upon the fiscal needs of each province and not the fiscal resources at its command. There can be no more financial than political segregation between province and province; in fair weather and foul they must pull together. The joint family system, where every member brings to the pool what he could with a view to common enjoyment of the total proceeds, has certainly a greater vitality than rabid individualism, which can only lead to profligacy and to waste.

The main reason for this fiscal reform is the belief that the State owes to its subjects certain obligations by way of social benefits and improvements to be carried out by a compulsory levy on the annual earnings. This has got to be contested. That such social benefits are being secured in other countries is no justification for our embarking upon schemes which can only land us in depths from which it would be difficult to extricate ourselves. The British Exchequer, for example, spends considerable sums for the relief of the poor and the indigent workmen; but it would be absurd to think of making a similar attempt in this country, for it would then be keeping practically a whole nation in alms. The unemployed in India would be more than the total population of the United Kingdom. If we began to tax ourselves for education and medical relief on a scale which obtained in the United Kingdom even before the War, we should practically double the land tax. Even so with every field in which private benefactions and public contributions have contrived to improve the social efficiency of the people. The payments are willingly made, because their incidence is trifling on the aggregate of annual wealth accumulated and carried forward. They would also be justified in this country if there is such a margin of accumulated wealth as would enable a portion of it being spent on these services. But when it is realised that the present level of taxation leaves barely a margin for the large majority of the people to keep their body and soul together, it is cruelty to think of securing to the starving the social amenities which States provide elsewhere for their subjects. It is more important that the burden of taxation is reduced just to meet those primary obligations of Government in order that the people may obtain these social benefits incidentally following from them, leaving an active enterprise in that field

to more propitious times. Between reduced taxation and improved social benefits, the tax-payer would vote for the former: he must live before he can enjoy the pleasures of life.

Over-taxation is not the only bane of our fiscal system; equally striking is the unequal distribution of the levy. That fortunes are being accumulated by a few, while poverty stalks through the land, is not the peculiar experience of this country; but the spirit of tenderness towards the rich and relentlessness towards the poor, which the tax system discloses, is singularly uncommon. Of course, among a population which is purely agricultural, without organised industrial wealth, the major portion must be poor and the burden of taxation must weigh with equal severity upon all. In this country, however, the pressure of taxation has fallen with greater severity upon the poor, and there is a progressive leniency upon the rich. The income-tax and the super-tax have been reformed with a view to weigh down the inequality; but these taxes in the very nature of things touch the fringe of the problem. There are whole communities of rich land-holders who have escaped from the rigours of these two taxes and, below the exemption limit of income-tax payers, there are large bodies of men who also cheat the State of their dues. These and others who are reaping tangible unearned increments on their investments in ever so many corporate bodies escape practically scot-free, shifting the tax burden on to the slender shoulders of agricultural land. Without laying ourselves open to the charge of confiscation, rigorous administrative measures ought to be taken to tap these sources with a view to afford the necessary relief to the large body of tenant-farmers and agricultural labourers who are first to feel the impact of depression. All regressive taxation will have to be studiously avoided, and as near an approach must be made to the ability principle as possible. It is believed that some of the suggestions that have been made already will conduce to a sounder principle of tax reform being inaugurated with success to the State and relief to the subjects.

Mr. Sarma gave oral evidence as follows:—

The President. Q.—Mr. Sarma, you are a pleader at Trichinopoly?

A.—Yes, Sir. I was formerly connected with the "Wednesday Review" as an Assistant Editor since 1905, and even after joining the Bar I have been a publicist.

Q.—You have made a special study of currency problems?

A.—Yes, I have written a book called "Indian Monetary Problems", and I went as a witness to England in the Currency Committee of 1919.

Dr. Hyder. Q.—After reading your note I wish to ask you one question. Is it your opinion that famines have not changed their character? Nowadays famine means unemployment. This is the same as in any other advanced country. How can you substantiate your statement in the following statement: "There was a shortage of 20 millions. Is it that so many were not born, or is it that the Malthusian checks of unadvertised hunger, disease, poverty and privation have claimed a heavy toll during all the years of fancied economic recuperation"? It is rather a very broad statement.

A.—It is going on increasing if you take the death rate.

Q.—You mean actually in famine years?

A.—Not only that. It is increasing for the last ten years.

Q.—You say there has been a decrease of population in the last census.

A.—Yes, a decrease in the rate of increase.

Q.—Don't you know that there was a great epidemic of influenza and other diseases during the last ten years which demanded a very heavy toll of life?

A.—I admit that.

Dr. Paranjpye. Q.—You are a student of public questions, do you expect the population will always continue to increase?

A.—I mean so far as means of subsistence will permit.

Q.—You say that population should go on increasing by 1 per cent every year. Is it a reasonable increase? Do you expect that increase to be continued for ever?

A.—We find that it is going on like that in other countries.

Q.—On the contrary, don't you find that in other countries the rate of increase is going down? You will find that even in England.

A.—I don't know that.

Q.—That your population should continue to increase by 1 per cent for all time is on the fact of it absurd.

A.—If you take the statistics available you will find that it is not so.

Q.—Do you expect that always?

A.—I cannot say that.

Q.—Do you suggest that a country whose increase of population is not so great is really going to the dogs?

A.—I simply said that you find in other countries an increase of 1 per cent during the same period.

Q.—It is not so. You will find in the United States of America in the early stages the population increased much faster. It all depends upon the state of development. If the country is populated nearly up to the means of subsistence, then there is no increase. You agree with that. You can say that in India population and means of subsistence are fairly balanced.

A.—I do not go so far as to agree with you. With one hundred million acres of culturable waste we can stand a still larger population. We have not reached the subsistence limit.

Q.—An Indian Deputy Accountant-General suggests that the population in India in fact is too big for the country.

A.—But then there is the statement of Mr. O'Connor, which is not controverted, that we have in India one hundred million acres of culturable waste. It can certainly fit in another hundred million population.

The President. Q.—To come to a concrete instance, how much culturable waste do you find in your own district of Trichinopoly?

A.—I can't say exactly.

Q.—But much of the land recorded as culturable waste is really land below the margin of cultivation.

Dr. Paranjpye.—Your point is that India is going to the dogs?

A.—It is in evidence.

Q.—Do you think that France is also going to the dogs?

A.—So far as France is concerned I cannot express any opinion. I suppose it did go to the dogs during the War.

Q.—That is not the point. One other fact you have not taken into account, the enormous mortality due to influenza, which was a special feature. Is that a cause of the economic deterioration of the people?

A.—I have not stated so.

Q.—You admit that you should take into account the influenza epidemic which took away six millions of people?

A.—We must.

Dr. Hyder. Q.—You seem to think that the development of railways and other facilities for transportation had not much to do in equalising prices, etc. But don't you think that prices in your district and for the whole of the Madras Presidency are more or less the same? You have been good enough to go into the question very carefully, but it will impress you if you would look at the map of prices, where you find the prices for wheat, rice, ghee, etc., are almost the same, and there is no variation between one district and another.

A.—No, there is not considerable variation.

Q.—Then you say "Has this extension linked the country sufficiently together for the easy internal transportation of necessary produce from the non-affected to the affected areas and mitigated suffering from want and

privation?" But you must admit that one outstanding feature in the economic life of this country since 1860, when it has been fairly linked up, is that there is no wide variation of prices.

A.—No, there is not much variation.

Q.—Then you go on with the interesting discussion of currency problems. In this connection you quote Mr. Keynes (his book on 'Monetary Reform'). I am sure you remember that passage where he defends the position of the Government of India. Is it fair to an author to quote him like that?

A.—Only for that purpose.

Q.—Whether there has been a very great increase in prices?

A.—There has been.

Q.—He says that the Government of India ought to have been more courageous in defending its currency and exchange policy than it was.

A.—Yes, I know he says that.

Q.—You quote him in so far as evils of depreciating currency are concerned, but when he comes to the question of rise in prices, you do not quote him. It is not perhaps fair.

A.—I do not think I am unfair to Mr. Keynes. He says in his first book that increase in rupee currency has no relation with the increase in price.

Q.—Mr. Sarma, you are here in a mess.

A.—That is my recollection. Mr. Keynes is an advocate of gold exchange standard, and he says that so far as Indian currency was concerned the increase of a hundred crores during the period when he wrote that book had an effective place in increasing the price. That is my recollection. I may be wrong.

Q.—But the passage immediately preceding that portion you do not quote.

A.—I differ from him when he said increase in rupee currency had no influence on prices.

Q.—I doubt if he said that.

A.—I know in his book on "Monetary Reform" he says so far as India is concerned subsequent to the War the prices remained steady.

Q.—You say the Government of India followed a policy of keeping the prices steady. I do not see how you can indict or criticise them.

A.—Which policy should I not criticise?

Q.—To keep the prices steady; for that you cannot draw up an indictment.

A.—I am not, at least, not to the same extent. The position is this. Indian prices were steadier during these five years than gold prices in Europe. They could have been still more steady if we had had a silver standard.

Q.—You say if we had a silver standard?

A.—Exactly; that has been my point.

Q.—Were there not a number of things happening to the production of silver? Suppose you had a silver standard, the output from the mines is bound up with the level of prices. If the output is fluctuating—as a matter of fact it was fluctuating—that would not have produced a steady price level in India?

A.—I don't think so.

The President. Q.—You have given a very interesting table in which you show how the incidence of taxation has shifted from one tax to another during the last twenty years. Some have greatly increased and some have decreased. You say: "Between these twenty years it is clear that the amount absorbed by the Government on these accounts has increased more than twice. As a matter of fact, the general level of prices during the same period has increased practically in the same proportion".

A.—Yes, about 200 per cent or so.

Q.—So actually the total amount of taxation has not increased?

A.—No.

Dr. Paranjpye. Q.—You agree with Professor Hamilton's thesis?

A.—My impression was that he said as a matter of fact people got some relief. That is what he seemed to have said. The incidence of taxation is a little bit lower now. I have not read his paper except in the newspaper reports.

The President. Q.—Then you go on to consider individual taxes. First you begin with land tax and say that though the revenue rose by four crores, the sum has been bodily transferred to the tax-gatherers as the price for collecting the same. You also say the land tax is paid by the consumer.

A.—What I mean is this. Ultimately the incidence of every tax falls upon the consumer. The land is owned by comparatively small number of people compared with the total population. So people who have got a large amount of lands naturally have to keep only a portion of the produce and sell the rest of it. It is the purchaser who has necessarily to pay the tax.

Dr. Hyder. Q.—Suppose there is a tax on rent, who pays it? The rent-receiver or the consumer? Is it shifted?

A.—The landowner will pay if you can get at the economic rent.

Q.—What is land revenue?

A.—It is a tax.

Q.—On what?

A.—Upon the person who owns the land.

Sir Percy Thompson. Q.—Is it not taking a portion of the economic rent?

A.—My own difficulty is that it is impossible to find out the economic rent of a piece of land.

Q.—Why?

A.—It is very difficult to find when you take a piece of land how much capital has been put into the land by the individual, how much labour has been used and what is the actual value of the land, etc.

Q.—Are you saying that the economic rent is the rent of the land in its natural unimproved state? Where capital has been expended the price of it is not an economic rent?

A.—No. Theoretically I agree with you, but if you take land in this country, what the land pays to the landowner is not the economic rent.

Q.—I quite agree with you there. What I am asking you is this, whether land revenue is a charge on the rent.

A.—Yes, it is more.

Q.—If it is less than the economic rent it is paid out of the economic rent. I suggest to you if you take the whole, not part of it, by way of taxation you don't increase the price of produce by one single penny because it comes out of surplus. What determines the price of the produce? If land has a differential value over and above the land on the margin of cultivation and if you take the whole of the differential value, you don't increase the price of the produce by one single penny.

A.—That is what I have learnt at school. But if I purchase two pieces of land one just on the margin of cultivation and another piece of land yielding a good crop, you will find, if you calculate 6 or 5 per cent interest upon the capital, that I invested, there will be nothing left.

Q.—Why then people are foolish enough to buy lands?

A.—I know as a matter of fact that there is no agriculturist who makes more than 4 per cent interest on his agriculture.

Dr. Paranjpye. Q.—They are not investing on lands purely from an economic point of view?

A.—Not always.

Dr. Hyder. Q.—Your 4 per cent from the land is not the same as 10 per cent from industry, for this reason that 3 or 4 per cent from land is dead certain, whereas a man who invests in industries is not sure about his interest. Is it not so?

A.—That is so. If of course the man is perfectly certain of his 3 or 4 per cent.

Dr. Paranjpye. Q.—People in India not only invest on land from purely pecuniary benefits but also for social benefits.

A.—That is so in many cases.

Sir Percy Thompson. Q.—Even if the land gives only one per cent, it is quite a different question from that of the economic rent, because the latter will remain precisely the same. If you tax that economic rent the owner will have to pay, and it will not affect the price of the produce?

A.—I do not know that.

Dr. Hyder. Q.—There is one more point. Do you say the land revenue enters into the cost of production?

A.—I say that land revenue is more than the economic rent and such it does.

Sir Percy Thompson. Q.—Right, but we have been hearing this morning that land is selling at one hundred and fifty times the land revenue.

A.—It may be, but I do not know if it is so high.

Q.—If land revenue is more than the economic rent, how does land come to sell at one hundred and fifty times the land revenue?

A.—I know instances where lands in this Presidency have been selling at 5,000 rupees an acre, but which may yield only 150 or 200 rupees an acre at the most. I am talking of conditions prevailing in the Tinnevelly district where it is more than that. If you consider the amount invested and if you take the return they get for the amount invested, you will find very little rent realised.

Sir Percy Thompson. Q.—If land revenue exceeds the economic rent, how are they paying anything for it? Who is going to be so foolish as to pay for the land when the rent or tax is greater than what they can get from the land?

A.—It is not greater than what he can get from the land if the capital is not taken note of.

Q.—You have got some lands, a prospective purchaser comes along and asks what is the rental value of the land, you say it is "X" and the land revenue you say is "Y". You say "Y" is greater than "X". If it is so, the value of the land is *minus*. Why should he pay for a *minus* value?

A.—There is no *minus* value if interest is not calculated. If the market rate of interest is allowed there will be no rent. If not, the land revenue will be less than the rent.

Q.—I am talking about the man who is a landlord and lets his land; if it is less?

A.—No, it is never less, it is certainly more.

Q.—Then the land revenue must be less than the economic rent. Your proposition is that land revenue is greater than the economic rent. I go and buy a piece of land and pay solid cash. If you suggest land revenue is more than the economic rent, I will be only getting a *minus* quantity.

A.—How, if you do not deduct the money paid for it?

The President. Q.—Can you please explain your definition of economic rent? You say: "Mr. Findlay Shirras says that in some places land is worth eighty or ninety times the Government rental. A 5 per cent interest on the value of 25 years' rental may be a very moderate deduction from an arithmetical calculation on the net produce, and, if that is allowed, no tax will be payable at all". Can you give us any concrete example?

A.—Suppose the land revenue is Rs. 10. According to the land revenue policy, the rent of the land must be Rs. 20. . . . . .

Dr. Paranjpye. Q.—If a man is buying it as investment, would he be foolish enough to pay twenty-five times the net income?

A.—He pays more.

Q.—In fact he does not pay for the amount of money he is going to get from the investment.

A.—If you calculate it upon the money invested in the land, you get very little. If it is eighty or ninety times that he pays, it is not that the land yields a percentage of income.

The President. Q.—You are assuming that the yield of the land is twice the land revenue, while the actual return may be fifteen times the land revenue.

A.—No; it is an exaggeration.

Q.—Isn't the actual rental value paid in your own district fifteen times the land revenue?

A.—I don't think so. The Cauvery-irrigated fields yield 20 *kalams* of paddy: Rs. 4½ or Rs. 5 is the usual rate: it will come to about Rs. 100. For a piece of land in which the man need not go and labour he pays Rs. 3,000 as purchase price.

Q.—I don't quite follow when you say that "A 5 per cent interest on the value of 25 years' rental may be a very moderate deduction from an arithmetical calculation of the net produce, and, if that is allowed, no tax will be payable at all." You mean fifty times the land revenue?

A.—Yes. On the basis of the half-net theory the calculation is correct.

Q.—Do you say that the consumer pays the land tax?

A.—I believe that the consumer ultimately pays every tax and when the agriculturist, keeping a reserve for himself, sells, it is the purchaser who pays. The whole cost of production is shifted on to the consumer, including the tax he pays.

Sir Percy Thompson. Q.—Does the consumer pay income-tax?

A.—In some cases he does, but not generally.

Dr. Hyder. Q.—Your statement comes to this: that the price of corn is high because rent is paid.

A.—No.

Sir Percy Thompson. Q.—Will you please define economic rent?

A.—If you take two pieces of land, one not yielding anything at all or just enough to meet the cost of cultivation, and another giving more, whatever is giving more is pure rent. I do not mean that. By rent I mean this: when you take two pieces of land, you must also deduct whatever is invested on them and then calculate the rent between the two.

Q.—I have a piece of land for which I paid Rs. 2,000. If I deduct the interest on it, I shall get its economic rent. I sell it for Rs. 10,000 and you buy it: you have to deduct interest for Rs. 10,000. Has the economic rent of that land changed because I sold it to you?

A.—If you deduct the interest on the Rs. 10,000 I pay, there will be no rent left.

Q.—The economic rent varies according to the idiocy or cleverness of the purchaser?

A.—You are making a number of assumptions.

The President. Q.—You would let the tenant off paying rent altogether?

A.—I am not likely to have used the word 'economic rent'. But if you make a provision for the capital invested, there would not be any rent left.

Sir Percy Thompson. Q.—If you are foolish enough to buy land for Rs. 10,000, you pay less tax, and if you are still more foolish to buy land for Rs. 1,00,000 you pay nothing by way of land revenue; is it not sheer rubbish?

A.—But what shall I do? I have money and I cannot do anything else with it. I am not foolish enough to pay an exaggerated price.

Q.—Why not buy Government securities?

A.—I might. It is also being done.

Q.—You invest in land because you get a very decent return.

A.—Seldom.

Dr. Hyder. Q.—Salt: you say on page 434 in your statement that "there cannot be any variation as to consumption of salt between the rich and the poor." That is to say, the demand for salt, all classes considered, is inelastic and the quantity consumed remains the same.

A.—More or less, it is so.

Q.—On page 435 you say "when the duty is low and the incidence is slight, the consumption increases perceptibly: and when the tax is raised, the consumption falls." I cannot reconcile the two statements. If a demand for a commodity is inelastic, the quantity consumed or demanded is not sensitive to price changes.

A.—So far as the change in consumption is concerned, the figures are taken from the financial statements. When the duty is high, the poor forego a portion of their consumption.

The President. Q.—Before you draw any conclusion from the figures of the financial statements, are not the figures of issues of salt on payment of duty completely distorted whenever a change in the rate of tax takes place or is expected?

Dr. Hyder. Q.—Have you worked out the figures for a series of years, say, for fifteen years when the rate was Rs. 2-8-0 and for fifteen years when the rate was Rs. 1-4-0? Allowing for the natural increase taking place in population, you will find very large variations in the total amount of salt consumed by the people of India: that is the thesis you have to maintain.

A.—You will find the figures varying and I have worked them out for the various years according to the rates prevalent during those years.

The President. Q.—Did you try the reverse process? You say there was an increase in consumption when there was a reduction in duty.

A.—Yes: it is there.

Dr. Hyder. Q.—The whole position is this: whether the rate increases or decreases, the quantity demanded will not show much variations; that is the one position to take, and it is inconsistent with the other position you have taken.

A.—When I say that there cannot be any variation as to the consumption of salt, it means that a man who takes a certain quantity will not take twice that quantity because the price is reduced.

The President. Q.—As regards land revenue, you say: "whereas the revenue rose by four crores, that sum has been bodily transferred to the tax-gatherers as price for collecting the same." Does it not mean that the pay of the village staff has been doubled?

A.—Now it has been doubled, but a number of village officers have been dispensed with.

Q.—Is it quite accurate to describe it as a transfer to the tax-gatherers?

A.—The village *karnam* is a tax-gatherer.

Q.—Prices have risen, taxes have risen and the cost of administration has also risen.

A.—Everything may rise, but unless I am going to save, there is no use of anything rising.

Q.—May I suggest that this increase in the pay of the village staff is inevitable, whether land revenue rises or not?

A.—You find in a particular year a certain revenue; ten years later you find an increase, and that increase is accounted for by the increase in the cost of collection.

Q.—Would you abolish the village staff or keep them on the same pay they were drawing half a century ago?

A.—We are entering into the question of expenditure.

Dr. Paranjpye. Q.—Do you mean to say that the cost of the village staff should really be credited to the cost of land revenue? Don't they do a large number of other duties besides collection of land revenue?

A.—The village *karnam* only does the village work: the village munsif does some civil or criminal work.

Q.—Do you maintain that the cost of collection of land revenue is 25 per cent?

A.—I have taken the figures from the financial statements as they are embodied there. If some allowance has to be made, figures may be worked out as to how much has to be put down to other services.

The President. Q.—How much of this goes to the village staff and how much to survey and settlement? I take it that you agree that survey is necessary, whether you have land revenue or not.

A.—I see that costs under survey and settlement have increased from Rs. 9,00,000 to Rs. 60,00,000. They may be deducted.

Q.—You have a survey and settlement even in Bengal where you have permanent settlement: so you could hardly debit the survey and settlement staff to land revenue?

A.—I have worked out the figures so far as they are available from the financial statements; if any deductions have to be made, they may be worked out.

Q.—You then proceed to make some comments on the increase in the duty of sugar. You say: "When the duty was raised to 10 per cent the revenue began to fall; . . . in 1921 when the revenue was raised to 15 per cent it was expected to yield 235 lakhs, but as a matter of fact, it yielded 650 lakhs owing to the abnormal imports consequent on a fall in prices".

What conclusions do you draw from these figures?

A.—I was referring only to the fact that as always happens, when you impose a protective duty upon an essential commodity, for every pound of sugar that you import, four times the amount is paid to the local manufacturers.

Q.—You are a die-hard free trader.

A.—I am.

Q.—Regarding the income-tax, you say that the calculations made at the time the exemption limit was raised have gone all wrong. Do you suggest that it was a mistake?

A.—It is not: it is simply an increase. I am only saying that the figures in the financial statement were wrong.

Q.—You say: "The exemption limit was raised to Rs. 2,000 in 1919, and it was expected to relieve 287,000 assessees out of 381,000 and cost a sum of 75 lakhs to the exchequer, but the calculations have all gone wrong."

A.—So far as the income was concerned, the figures were wrong. They calculated there would be a loss of 75 lakhs; on the other hand, you will find an increase.

Q.—The gain that you speak of came from the other people?

A.—Yes, but now the figure for assessees has come to 2½ lakhs.

Q.—We now come to the "function of tax revenue." You say: "As the subvention must increase with the capital at charge, the railways will become a growing source of tax revenue, instead of being a cheap means of internal transportation".

A.—If you are going to confine yourself to meeting working expenses every year and go on borrowing every year, you would have to pay, not only the interest already in existence, but also one-eightieth of the sum that will be the loan account for the railways.

Q.—You will have to pay that to the redemption fund?

A.—I can understand the starting of the fund when borrowing has stopped.

Q.—But how are railways going to be a growing source of revenue?

A.—The revenue will go on increasing if you put up the rates as high as possible.

Q.—Why should the rate increase as the mileage increases?

A.—If for a particular year, the profit is 5½, next year it will be 6, the year after that, 7, and so on. There is so much of excess that will be taken from a limited section of the people.

Q.—On the other hand, as you take up the less favourably situated schemes, won't the rate of profit tend to decline?

A.—Yes, some of them may not pay.

Q.—In which case, there may not be any profit.

A.—During the last few years, I think the railways paid a considerable portion of the deficit of the Government of India.

Q.—We now come to federal finance. You say: "The federal system has broken down in every foreign country in that separate water-tight sources of revenue could not be earmarked for federal as distinguished from State or even local purposes." Which are the countries you refer to which have tried these water-tight sources of revenue?

A.—In every country where there is an income-tax, they put on a surcharge on income-tax for local purposes: you cannot say this tax alone is for Local Government or that tax alone is for Imperial Government. The experiment has failed in every country.

Q.—Does not that show that there is not a separate water-tight source?

A.—Yes.

Dr. Paranjpye. Q.—Are you against this theory of separation of sources?

A.—I don't want it: it cannot work fairly.

The President. Q.—You say: "If the necessary implications of separatist finance are widely understood and appreciated, it may be doubted if the movement for provincial home-rule would gain much strength".

A.—Yes, I am against dividing it between the provinces.

Q.—Then you say: "Once people begin to taste the full fruits of financial autonomy, we shall have a Babel raised against provincial tyranny and provincial inequality," and you go on to say that a fiscal system must be evolved which will have due regard to comparative fiscal needs.

A.—I mean the capacity of the people and the expenditure that they ought to be put to.

Q.—You say: "There is no true measure of provincial needs, and any amount can be spent by any province if only the money is available."

A.—Yes; if you give money to any province, it will spend it.

Q.—How are you going to determine comparative fiscal needs? Do you think it is fair that one province should pay for another?

A.—No.

Q.—If province A says it has more fiscal needs and wants Rs. 10 a head, and province B only makes an estimate of Rs. 9, province B will have to give to province A under your scheme.

A.—It is not possible to treat all the provinces equally under any scheme of financial devolution; so we should do away with such an idea and raise the revenue entirely for the whole country; so far as each province is concerned, we should see to the absolute necessities of each province and distribute funds accordingly.

Q.—That is, you would go back to the old provincial contracts?

A.—I think the best scheme would be that for which Sir James Westland fought.

Q.—How do you determine the comparative fiscal needs?

A.—You must have some measure of finding out what province needs what amount.

Q.—What process would you adopt to determine this?

A.—Responsible authorities must be able to say what the necessities of each province are.

Q.—Would you say that the Meston Committee were sufficiently responsible authorities? Did they achieve complete success in determining what the needs of each province were? Could you appoint a more authoritative body?

A.—They failed because of the difficulties I am suggesting.

Dr. Paranjpye. Q.—The logical result of your suggestion would be to abolish all Provincial Governments and ask the Imperial Government to manage everything.

A.—I have said so. I should rather think that there is nobody in favour of that view.

The President. Q.—You say that: "The provincialization of land revenue while it has the effect of exempting the large mass of the people from paying their fair share of imperial burdens, has the effect of discriminating between the subjects of various provinces." Would you endeavour to enforce a uniform scheme of land revenue throughout India and scrap history, tradition, existing arrangements, existing laws, etc.?

A.—To begin with, I am making some suggestions. I am proposing a tax on agricultural incomes, exempting small cultivators who pay below Rs. 10. I do not want to reach a clean slate, especially on financial questions.

Q.—You say that "The contribution, though it may be justified on the ability principle, relieves, to the extent larger sums are raised, the burden on those who pay other taxes. It may be stated broadly that the imperial burden on land in Bombay will be lighter than on land in Madras.' How does that come about? Your figures all relate to income-tax?

A.—I have given figures also for land revenue. There is also a proposal to provincialize income-tax.

Q.—You say: "There is no true measure of provincial needs, and any amount can be spent by any province if only the money is available. A basis of distribution satisfactory to the provinces cannot be secured".

A.—Every province will go and contract for as much as it can get.

Q.—You say: "The provincialization of stamps has already begun to work unequally and the recent amendments of the Stamp and Court-fees Acts do not disclose any true appreciation on the part of the legislators of the place of fees in the fiscal system".

A.—Yes.

Q.—"The growing demand for division of provinces on a linguistic basis, or on a religious basis so as to minimise the Hindu-Mussalman problem, points to a striking divergence from those economic ties, facilities and resources which alone can perhaps be a rational basis for the formation of administrative units".

A.—And you cannot get that in India; that is what I say. Each province has its own fiscal systems, so the incidence of taxation cannot be the same compared with the incidence of taxation in the other provinces.

Q.—Then you say provincial autonomy would prove "an instrument in employing the brute force of majority to accentuate fiscal inequalities by so modifying the burden of taxation as to hurt particular classes and communities and benefit others".

A.—Yes; that might be the position.

Q.—You have not seen instances of that yet?

A.—We are having it lower down.

Q.—It has already led to class taxation. Is that your experience in Trichinopoly?

A.—Yes. It is coming on slowly. It is a question of time for it to develop.

Dr. Hyder. Q.—Is there any undervaluation in assessments to house tax in Trichinopoly?

A.—Yes; these are the blessings of democracy.

Q.—You say: "The high level of stamp duty on transfers of property has had the effect of adding to the burden of the borrower or the vendor who usually pays the full amount, and though it might not have restrained transfers, it has in many cases led to undervaluations to escape the onerous character of it".

A.—Yes; sometimes it is undervalued for the purpose of sales.

Q.—You say it adds to the burden of the borrower and the vendor?

A.—The law may be different; but usually the seller pays.

Q.—Then you say: "The heavy cost of litigation is one of the prime causes of the economic deterioration and indebtedness of the people. It is a wholesome policy of civilized States to make the administration of justice as cheap as possible, as it is the one bed-rock upon which human institutions rest".

A.—Yes; of course, usually, the word 'litigation' is used in a different sense.

Q.—You say "receipts might be made to approximate to the cost principle".

A.—Yes.

Q.—The advantages of the cost principle as against the profits principle, as stated by an American writer, are first that it takes away the uncertainty as to the result to be striven for; and second, that it furnishes a tangible basis on which the rates are likely to be computed with due regard to the public interest".

A.—Yes.

Q.—Transactions such as sale of property are a suitable occasion on which the State should take a share.

A.—But you ought not to over-burden the people. During the last revision of the Stamp and Court-fees Acts, the fees went up 50 per cent.

Q.—With regard to 'general principles of taxation', you say "The intensity of the demand for 'steep' graduation has already created a reaction in favour of proportional taxation". Who is your authority?

A.—I will send you the reference later on.*

Q.—Are you referring to Sir Josiah Stamp?

A.—I do not remember. I will send up the reference.

Q.—You say "On economic principles the indirect taxes on consumption and expenditure can play but a subordinate part in a well-ordered tax system".

A.—Yes.

Q.—Have you not also to take into account the psychology of the people?

A.—Yes.

Q.—Is there not the feeling in this country that they are in favour of indirect instead of direct taxation?

A.—But the present rates of indirect taxation are high.

Q.—There is a conflict between these two principles—the principle of universality and the principle of ability.

A.—Yes.

Q.—The customs duties which have been so largely increased recently are not the duties paid by the whole population. Duties on motor cars, for instance.

A.—Yes, on motor cars and silks. They say they are luxuries. About half and half, you may say.

Q.—You say: "The duty on imported cotton, woollen and silk and the excise on Indian cotton manufactures—which is a purely Anglo-Indian patent in scientific taxation—fall universally"?

A.—Yes.

Q.—Are not textile goods taxed in Japan?

A.—But they do it for some other purpose. They want to stimulate the export and for that purpose even to restrict consumption. Their purpose is different.

Q.—You quote Sir Edward Law and say "a theory which invites a retort which need not be made"?

A.—Yes. Every inch of land is purchased by the landowner in the ryotwari tract, at any rate.

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*Sir Josiah Stamp in his "Fundamental Principles of Taxation" says (page 51) "Thought is at the present time moving so actively in this direction, that the misgivings of some antagonists of graduation, during the nineteenth century, seem to be fully justified." Also Professor Edgeworth, 1920: Royal Commission on Income-tax. Q. 11705.

Dr. Hyder. Q.—What has become of the class who were originally on the land? Have they disappeared?

A.—They may have sold it to others.

Q.—The original class have gone down to the landless category? That is an important point.

A.—How are you going to find out who were the original class? There are sales going on. Property is changing hands every year and every day and full price is paid for that.

Dr. Paranjpye. Q.—There is hardly any piece of land remaining in the same family for 500 years.

A.—Yes.

The President. Q.—You say "The rent being part of the cost of raising produce, agricultural products will have an enhanced value which will be ultimately shifted on to the consumer". And a few lines later, you say "After all, the price for the use of land may not be a determining factor in the ultimate cost of the produce".

A.—I am arguing there why they say so. In the next paragraph I am giving my reasons.

Q.—You say, "The blind application of the theory of economic rents to the practical conditions of agriculture is responsible for the belief that the land yields an unearned increment of 25 per cent during the lifetime of every generation, and that the Government with unexampled liberality take but three-fourths of it". Who believes that?

A.—That is the belief on which the land revenue policy is based. There is revision every thirty years. Then they put 25 per cent increase, and if there is agitation it is reduced to 18¾. And they say it is 50 per cent of the net produce.

Q.—Can you tell me any district which has had this 25 per cent increase?

A.—It is reduced from 25 to 18¾.

Q.—I cannot imagine in whose mind that belief exists.

A.—The basis of land revenue is that.

Q.—You say, "The presumptuous claim to measure by a percentage the unearned increment from land is the most audacious for a Government department to make even in this country"?

A.—Yes. They say they can measure unearned increment on land in each village. How is it possible?

Q.—I want to know where this claim is made.

A.—I am taking that the basis of the land revenue policy is that.

Q.—You set up a skittle and try to knock it down; it should be referable to some particular declaration. You say 'presumptuous claim'. The claim must have been made by somebody.

A.—It is not so stated. I need not tell you anything new on the question of land revenue settlement. The whole basis of the land revenue settlment is that the Settlement Officer can measure the unearned increment of land; and he takes a portion of it. That is the whole basis upon which these things are taking place. They say there is such a thing as an unearned increment which is measurable at every time the revision takes place and that is 25 per cent what it was thirty years ago. That is how they calculate it.

Sir Percy Thompson. Q.—Can't you give your authority for that? I have read a good deal of these things, and I have never read that 25 per cent increase is assumed to take place.

A.—You find it in the settlement reports.

Q.—I have read them and I don't find it.

A.—In the report relating to the Trichinopoly district, it is stated and it is reduced to 18¾.

Q.—There might have been, in fact, an increase, calculated on the basis of net assets, of 25 per cent. That incidentally might be 25 per cent. But I have never seen it stated that the Settlement Officer *assumes* an increase of 25 per cent to have taken place during the last thirty years. Can you refer me to any authority?

A.—There have been three or four recent settlements. I will find out what the estimate of the Settlement Officer was and tell you.

Q.—Are you quite sure you are not mistaking this: I have seen the Settlement Officer finding an increment of 31, 32, 33 and so on and then reducing it to 25 or 18¾ or whatever it may be, that being the limit. But I have not seen an *assumption*—an *a priori* assumption—before the Settlement Officer has gone into the question, that the land has increased in value by 25 per cent.

A.—What he finds is, I submit, his assumption.

The President. Q.—You say, "In all these refined calculations, the marketable value which land inherently possesses is invariably ignored. No account is taken of the capital invested on land, unless it be that agriculture is an industry which is expected to be dividend-free". Is not a considerable portion of every settlement report devoted to analysing the prices at which land is selling?

A.—Do they take account for the capital invested, in arriving at the taxable capacity of any piece of land? I have not seen that.

Sir Percy Thompson. Q.—They make allowance for the physical improvements made on the land.

A.—I am speaking of the capital invested. If money is invested, is any portion of the interest deducted or allowed for in taxing the land?

Q.—No; but then what you are going to say is this: the higher the price paid for the land, the more valuable it becomes and the less it is to be taxed. Is that your proposition?

A.—I do not state so. Take a fair price.

Q.—Then I cannot follow you.

A.—I state that you should fix once for all a certain tax on every acre of land, whatever it may be, and whatever be the increase or decrease in price. Once for all, settle it and then tax agricultural incomes at a certain rate.

Q.—How can you settle it once for all?

A.—You need not care for the capital value of the land. You now settle for each acre of land some tax which is payable even assuming that the cultivator makes a large profit.

Q.—A permanent settlement. Is that the idea?

A.—Yes; that is what I suggest. The small holders, say, those who are paying a revenue of Rs. 10 and under, may be exempted. Then fix a scale of taxation for every piece of land—any scale which you may consider reasonable; and then tax the higher incomes, say, when the income exceeds Rs. 3,000 or Rs. 4,000. In that case you need not care for what the land sells at. But when you say "the landowner gets money and, therefore, he must be taxed", you must give allowance for the sum that was actually invested. I may be a fool or I may be clever; I have paid some money and should I not get some return for it?

Q.—Suppose you very foolishly go and spend Rs. 1,00,000 on a piece of land which brings you a return of Rs. 10; are you going to make any allowance for the fact you have paid that large amount?

A.—You need not; it is a large supposition.

The President. Q.—Suppose A gets a patch of land from the Government for nothing, on which the tax is Rs. 10. He sells it to B for Rs. 100; then according to your suggestion, you would deduct from the Rs. 10, 6 per cent on the Rs. 100 and reduce the tax to Rs. 4. Now B sells it to C for Rs. 150 and the interest on it is Rs. 9; and you reduce the land tax to Re. 1; then C sells to D for Rs. 200, the interest being Rs. 12; and the Government has to pay him Rs. 2 for occupying the land.

A.—If you go on working at that rate, you get those figures. You must take the facts as they exist. Why do you suppose that the whole world consists of fools? Facts must be taken into consideration such as they are. The fact is that land is heavily paid for. You say you are taxing land on certain principles; then why don't you make allowance for the money invested on the land?

Sir Percy Thompson. Q.—That is what the President has tried to do and he has arrived at this result; he finds that the land revenue, as time goes on, becomes a *minus* quantity and the Government has got to pay Rs. 2 for the foolishness of the purchaser. Your proposition comes to that.

A.—That is not what I am contending. That is not my proposition. If it is a question of presuming a piece of land which the Government gave away as gift, no man would pay Rs. 100 for it vain.

Q.—Why not? Certainly, later on, they will have to pay. You have a number of such instances.

A.—I am speaking of agricultural land, not land in urban areas.

The President. Q.—Even in the case of agricultural land, it is so. Go down to the Berar cotton lands which, in the last few years, have doubled or trebled in value.

A.—That is the value of expectations. It is only for that purpose—to avoid this difficulty of making calculations—that I say, fix once for all the revenue and then tax the incomes. If you go on taxing on the capital value and make no allowance for the capital invested, you will probably land in such difficulties.

Q.—On this principle when you tax incomes, should you not deduct the interest on the capital put in?

A.—Yes.

Q.—And do you do that in the case of business men so far as income-tax is concerned? Suppose a man buys a mill?

A.—I think it is quite reasonable to allow it.

Q.—You want to deduct interest on his own capital which he put into the business of his own accord. If he invests Rs. 1,000 on land, you have to deduct Rs. 60 at the rate of 6 per cent. It is so in the case of a mill. Suppose he invests the money in Government paper and gets Rs. 30; then are you going to allow Rs. 60?

A.—If you are putting it as a question of equity, an allowance must be made for the return on capital.

Q.—But what is taxable is the return on the capital.

A.—Yes; but since our chief industry is agriculture, and large sums are invested in land, some allowance must be made. Otherwise, there won't be any reasonable income derived from land.

Q.—Again you say, "It will be admitted without doubt that the periodical revision of land revenue with its consequent enhancement of the State's demand must necessarily put up the price of agricultural products".

A.—Yes. The price of crops is raised. There is no doubt about that.

Q.—Now the Trichinopoly district was resettled this year; do you think the prices were raised by 18¾ per cent?

A.—Not immediately to that extent.

Q.—Tanjore has not been resettled last year, and therefore the prices would be steady there?

A.—You must compare the prices with the prices of ten years previous.

Q.—You say that because you resettle the Trichinopoly district, the prices will rise in the Trichinopoly district?

A.—Not in Trichinopoly alone.

Sir Percy Thompson. Q.—Is the resettlement in the Trichinopoly district going to raise the prices of the world? If the land revenue is increased there, where do you suggest the price of corn will rise—is it in Trichinopoly or in India or in the whole world?

A.—In a number of districts adjoining Trichinopoly.

Q.—Why do they not get the corn from elsewhere?

A.—Who is to pay the railway charges?

Q.—If the rise in prices is very small, they would not import from elsewhere. But if the cost of railway freight is very small in comparison with the rise of prices, surely they will buy in the cheapest market.

Dr. Hyder. Q.—Suppose Trichinopoly is not resettled; now the railway charge is a constant factor. When Trichinopoly is resettled over and above this constant factor, there is the increase of 18¾ per cent. Surely the people of Trichinopoly will be very alert; they will say "We can pay railway freight and avoid this extra 18¾ per cent".

A.—If it was cheaper.

Q.—The fact is this. The price of paddy in Trichinopoly varies from the price of paddy at Tuticorin or Ganjam only by the difference in the railway freight, so that land revenue does not affect it one way or the other.

A.—But resettlements are going on every year and the pitch of the price will move up.

Q.—You will find from the quotations given in the gazette that the price of paddy in Trichinooply and Ganjam is the same except for railway freight, so that the resettlement has had no effect upon these prices.

A.—If you take the price for five years, is it to be contended that the resettlement has not had any effect on the price of the paddy throughout the Presidency?

Dr. Paranjpye. Q.—The rise in land revenue is from 21 crores to 27 crores of rupees?

A.—You cannot say that if land revenue has been enhanced, the price has not been affected.

Q.—I understand you are against inheritance tax and death duties and your reasons are merely sentimental.

A.—Not merely.

Q.—You do not consider this question from the economic point of view, but you consider it only from the political and sentimental point of view?

A.—To some extent I have considered it from the economic point of view also.

Q.—Do these sentimental reasons not exist in other countries?

A.—I do not deny that.

Q.—Still those countries have death duties?

A.—Yes.

Q.—Practically in almost all the advanced countries death duties are levied.

A.—They took to these death duties because there was a paramount necessity.

Q.—Where was the question of paramount necessity during Sir William Harcourt's regime? Was it required for balancing the budget?

A.—4 million pounds were required for the Navy.

Sir Percy Thompson. Q.—What do you mean by saying they were hard-pressed? At that time income-tax was eight pence in the pound. They wanted 4 million pounds when income-tax was eight pence as compared with the later figure of six shillings, and they could have got the whole sum by raising the income-tax by one penny.

A.—They could have done that. But the Chancellor of Exchequer perhaps thought that that if he increased the income-tax, there will be a greater opposition.

Q.—He thought death duties were the fairest means of raising the additional four millions?

A.—When I use the word 'dire necessity' I do not mean it should be the last resource. They felt the necessity and they raised it.

Dr. Paranjpye. Q.—In other countries human nature is the same, and there was no dire necessity for them to put on this duty. You said there were other economic reasons. Would you tell us what they are? So far as I understand, taxation is levied in cases where there is a windfall when persons have not worked for that income. In that case, it is generally accepted under all canons of taxation as the fairest source of taxation. Now there is the property obtained by the death of somebody else without having worked for it, is not this pre-eminently a case of windfall on which, if the State requires further resources, it is entitled to lay its hands?

A.—If every man has to begin with nothing in life, that would be an ideal state of things.

Q.—In one instance, instead of being the owner of Rs. 5,000 which he might have earned by his own exertion, he becomes the owner of

Rs. 50,000 simply by accident. Don't you think the State should tax the additional sum which he has got as a windfall? How has he earned this Rs. 45,000 except for the fact that he is born in that family?

A.—I think he has earned it. If I have been fortunate enough to accumulate property, have I not got the right of giving my property entirely to my son? Should a third party come and say that my son has not worked for it and he should not have it?

Q.—That is the modern theory.

A.—I do not accept that theory. If progressive taxation should go to such an extent as even to destroy ever so many social institutions by which industrious people's fortunes were made, I do not subscribe to it.

Q.—You consider that a man should be absolutely entitled to dispose of the property as he likes?

A.—Yes, as he earned it he must be able to dispose of it.

Q.—Suppose there is a case of intestate succession, he does not dispose of his property, but a third cousin inherits the property. Even then you do not advocate this duty?

A.—Possibly that man thought that his third cousin ought to take it, and therefore made no will. Why should the Government deny him that privilege?

Q.—You see there are many instances where the enemy of the deceased person succeeds to the property. Take the case of two brothers who might have been on very bad terms during their lifetime.

A.—Then they dispose of their property otherwise.

Q.—You say a man should have an absolute right to dispose of the whole of his property; not only that he should enjoy the efforts of his labour, but he should put upon the society a burden of the person who does not work, but simply lives upon the property earned by others. Don't you think that Government should take a part of this windfall?

A.—If you call it a windfall, I do not object. That there are some cases of this sort I do not deny. Suppose there is an absolute necessity and somehow or other money must be found, then the question of capital levy comes in. It is a different matter then. But so far as I have been able to study the Indian Financial conditions, there is no such necessity that death duties should be levied now.

Q.—If there was a choice between salt duty and death duty, which would you choose?

A.—I would prefer salt duty.

Q.—You would prefer salt duty on the poor person, but you would leave untaxed the person who gets property by a windfall?

A.—I do not take it as a windfall. I earn not only for myself but for my kith and kin also. Why should I give to the State a portion of what I earn instead of to my own people? If death duty is a matter of absolute necessity having regard to the financial necessities, suppose the country is invaded and a large sum of money is necessary and money cannot be derived by any other source, then it is a different matter.

Q.—Suppose you have a policy of extension of education and you want further resources: according to your theory you will have to say the State has no business to go in for education?

A.—I won't say that it should pay for it by imposing death duties.

Dr. Hyder. Q.—On a point of theory. You say, "It is generally held that taxes stick to where they fall; but it may not be that the death duties will stick to the so-called beneficiaries. In the large majority of cases, where the real property is a house, the tax will be shifted to the tenant as tenancy is more or less at will, and there is no active trade in house-building". Let us get away from the monetary difficulties and let us consider the house properties and zamindaris. Government says to the zamindar that when he is quitting this world for every 100 acres of land, he will have to give one acre. To the house proprietor, for every 100 houses that he will have to give to the State one house. I would like to ask you when taxes are being realized like this, how can these taxes affect the tenants.

A.—You are thinking of a state of things that may not exist.

Q.—It is only to simplify matters. Is that one acre or house going to fly out of existence?

A.—What the man will do is he will sell one house and then say he does not possess the house.

Q.—The State will say we will take one acre.

A.—I am not referring to the house-owner. The person who comes to the house on the death of the person must pay the duty; whether it is to be given in one year or spread over ten years, the tenant will have to pay.

The President. Q.—If in successive years the rent will be increased, surely the tenant will go to some other house?

A.—If he could get one.

Sir Percy Thompson. Q.—With regard to income-tax you say that there is a great deal of double taxation and you say, "Where the tax paid in the United Kingdom is less, the relief claimed in India will be greater". Let me explain to you the system as at present working. Suppose Indian income-tax is one anna in the rupee and English income-tax is 4 annas in the rupee. Suppose a man makes an income in India on the basis of the preceding year Rs. 5,000 a year, while in England it is calculated on the three years' average and comes to Rs. 50,000. Would you mind telling us what India will give?

A.—On the three years' average, suppose it was for the first year Rs. 1,000, second year Rs. 2,000, third year Rs. 3,000. On the third year average the amount payable will be Rs. 2,000.

Q.—That is in the year four?

A.—Yes, on the English calculation. In India the amount paid for that year, is Rs. 3,000. When the tax paid there is on Rs. 2,000, the relief claimed here is on Rs. 3,000. It sometimes takes place.

Q.—That is quite right.

A.—It is not Rs. 2,000 that has paid double tax, but on Rs. 3,000 relief is claimed here, the relief is higher and obtained.

Q.—What is your rate?

A.—I do not know actually the rate. I had in mind the case of the South Indian Railway. In India the relief is given on the Rs. 3,000, but in England according to your calculation, relief is claimed on Rs. 2,000, so it is not Rs. 2,000 that pays double taxation, but relief is given to Rs. 3,000.

Q.—Remember in that case the first to suffer is the British Exchequer. Tax is presumably paid in India on Rs. 2,000 and in England on Rs. 3,000. India gives relief to half. How do you say this, "Not only is the Indian tax-payer compelled to shell out year after year a decent portion of the revenue to the relief of the United Kingdom, but even the important source of interest on sterling debt paid in England escapes taxation"? Where is the question of shelling out here?

A.—Relief is claimed on Rs. 1,000, which has not paid double taxation, is it not?

Q.—No.

A.—That actually takes place.

Q.—I do not think you are quite right. Assuming it is right, it is little tall to call it shelling out, when the bulk of the relief is given on the Rs. 2,000?

A.—Where is the relief given? So far as Rs. 2,000 is concerned the tax is paid there in England. But when you come to us to give relief you ask us to give relief not only upon Rs. 2,000 but also on Rs. 3,000.

Q.—Only when your rate is more than half the English rate. You don't pay unless your rate is more than half the British rate which at the present moment it is not?

A.—Of course, it is not likely to be.

Q.—What do you mean by saying that "the immunity from taxation given to the interest receivers on our sterling debt in the United Kingdom and the refund to the tax-payer in relief of double taxation, raise

the issue whether the tax is related to the taxable capacity of the people or not"? Of course it escapes taxation. When you issued the loan it was distinctly promised that it will be free from income-tax.

A.—Who promised?

Q.—The Government of course. On the prospectus of those sterling loans, is there not a provision that it will be free of taxation in India?

A.—That is a different matter. If the Government gives that undertaking, that is a case for excuse. But I am suggesting that it ought to be taxed. It does not mean that the Government of India should not give exemption. They say if you want to invest in India you won't be taxed which I say is wrong.

Q.—The point is this. If the Government of India wanted money from England it has got to give a rate of interest, which should after deduction of taxation should be sufficiently attractive to the British investor. If it is subject to Indian taxation, they would not care to invest at all. It would be scandalous for the Government of India to issue a prospectus for subscriptions, saying it is going to be free of interest, and then to come and say that it will not be exempt.

A.—I am not saying that once the Government of India have promised, they should break it.

Q.—Can you name any security which was not issued subject to the condition of its being tax-free?

A.—I cannot say that. My point is that Government ought not to issue tax-free loans. If the Government of India or the people of India think that it is absolutely necessary that a certain amount of loan should be raised in the British market, then it is a different matter.

The President. Q.—May we leave India altogether, for a moment. You are no doubt aware that there are British securities free of income-tax. The British Government do not charge anything on the dividends and securities held by their people. Is it not logical that Indian sterling loan also should be exempted seeing that certain loans are exempted even in England?

A.—My point is that there should not be any tax-exempt security at all.

Q.—You are no doubt aware that there are a number of British securities which are issued income-tax-free to residents abroad: the British Government do not charge interest on residents in the United States of America on the dividends on these securities held by them for exactly the same reason that, unless they gave exemption, they would have to pay the Americans a higher rate of interest.

A.—I do not say that once exemption is given it should be removed.

Sir Percy Thompson. Q.—How do you account for the fact that the whole world is borrowing money free of income-tax?

A.—After the War, they have been doing it. Before, each country was borrowing without exemption from taxation.

Q.—Before the War a good many countries did do it: England did not. But you must remember that then income-tax was a very small amount: now it is a very serious matter.

A.—Having regard to the fact that the market is tight in England, there is no necessity for India to go and borrow there.

Q.—But the point is that a sterling loan is practically not taken up at all in India.

A.—If a tax-exempt security is issued, the point is not that the holders of that security should be asked to pay: such securities ought not to be issued, and if there is a necessity for them, you must raise them as far as possible within the country.

Q.—Do you know of any rupee loans that are issued in India, subject to the condition that they are free from income-tax? My impression is that they are liable to income-tax.

A.—During the last three or four years they have been issued income-tax-free.

Q.—Do you agree that, "we do not possess a monopoly or semi-monopoly in any of our exports sufficient to compel the foreigner to bear a portion at least of our export duties?"

A.—If it is true that in Java they are now manufacturing a kind of coir for sacks at one-third the cost of sacks manufactured from jute, I am afraid that the jute revenue may fall. They are now experimenting with it in Java and may succeed.

Q.—You develop the theory that the free and unfettered ingress of untaxed precious metals is the necessary consequence of high import duties?

A.—Yes.

Dr. Hyder. Q.—I daresay the fact is known to you that ever since the days of Pliny, Indians have shown a decided preference for precious metals.

A.—My own calculation was that India has one-fifth of the population of the world and our consumption was one-fifth of the precious metals dug out of the earth.

Q.—Has this manipulation of the tariff anything to do with the large hoarding of precious metals?

A.—No. If a commodity sells dear, a man has an inclination to get less: if you tax it high, he won't purchase it. The imports have thus been reduced, and instead of importing goods, they are importing precious metals, certainly to a larger extent than they would otherwise do if the price of imported goods were less. We import precious metals to a larger extent, because we think it is cheaper to import them than foreign goods.

Sir Percy Thompson. Q.—Have the imports of precious metals gone up?

A.—Last year the import was 60 crores worth and the year before 40 crores worth.

Q.—What was it in 1913?

A.—I think it was less.

Dr. Hyder. Q.—The Government of India tax everything that comes to India, and therefore the people of India, being economic, get these precious metals. To the extent that gold and silver buries itself underground, prices will fall: to the extent that they are not buried, prices will rise. If you take this volume of gold and silver which comes to India over a series of years, it will continually be raising the price level in India, until prices rise very much. Then the people of India would say, "There is no point in bringing this gold and silver, let us bring in goods."

A.—I think a time will come when they will think so. When Mr. Datta made his report, you will find that the highest price level was reached by this country. The price level in other countries was lower.

Q.—But this has nothing to do with our preference for gold and silver, which has been there for thousands of years.

I should like you to refer to your statement "that the mill-owners who are naturally keen business men should consider dividend as their first and last objective is not in itself a vice. When the industry is capable of expansion, as the history of cotton industry has shown it to be, the growth of competition will naturally bring down prices." I should like you, as an economist, to develop this argument. Suppose there is competition, what follows next? Prices will come down?

A.—Yes.

Q.—More money having been invested in the cotton industry, the mill-owners will find that the returns which they obtain from their capital are not so great; therefore, they will force the Government of India to raise the tariff and so raise again the prices. That is the result that will come about.

A.—Once you impose a protective duty, that will be the result, not only on cotton, but on every industry. The import duty upon cotton goods must be considerably reduced. If you bring it down to 5 per cent it is not much.

The President. Q.—I take it you are not an advocate of prohibition.

A.—No.

Q.—You think there is a great deal of illicit consumption at present and there will be still more if you attempted prohibition?

A.—Yes.

Q.—You say there has not been an appreciable reduction in the number of licenses issued?

A.—There has been some reduction.

Q.—10,000?

A.—No: compared with the number of licenses issued, the reduction is a little less. Owing to high prices, many are not going to the shops.

Q.—You would leave the question of the distribution of shops entirely in the hands of local boards and municipalities?

A.—Yes.

Q.—A good many of them have already declared in favour of entire prohibition, so that if you leave the distribution to them they will close them all.

A.—If power is given to them, they will not close them having regard to their interests. Prohibition as preached from the platform is different to prohibition in practice.

Dr. Paranjpye. Q.—If a local body recommends prohibition, it must be able to make up for the loss of revenue.

A.—Certainly.

The President. Q.—You believe that local bodies would abandon the prohibition policy altogether if their revenues were involved?

A.—Yes.

Q.—You propose to make salt a complete monopoly?

A.—Yes.

Q.—You would adopt large-scale production?

A.—Yes.

Q.—Under "new taxes proposed" you suggest a tax on marriages, it will be a sort of registration fee?

A.—No; I am for as few taxes as possible.

Dr. Hyder. Q—Are rice and wheat taxed in India?

A.—There is an export duty.

Q.—You quote the Duke of Argyle as saying that "salt appears to be the only one which at present can occupy the place which is held in our financial system by the great articles of consumption from which a large part of the imperial revenue is derived." You go on to say that " salt is usually cooked in India with articles of food, every one of which is charged, and that heavily."

A.—I am there referring to the produce from land. If you agree that land revenue is a tax, then everything produced from land is taxed.

The President. Q.—Under "local taxation", you say that the imposition of a profession tax and a house tax is double taxation.

A.—I refer to land within municipal area, which pays a tax to the municipality and also land revenue.

Q.—They are both of them very low, aren't they?

A.—That depends upon the view taken.

Q.—Do you recommend a business tax?

A.—Yes.

Q.—You say that the assessing officer should be entirely independent of the municipal committee?

A.—Yes.

23rd May 1925.

OOTACAMUND.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President*.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. J. F. HALL, I.C.S., Collector of Madura, and Mr. B. G. HOLDSWORTH, I.C.S., Special Settlement Officer, Kistna district, were examined.

Written memorandum of Mr. Hall.

General remark.—Throughout the whole of these answers it is to be understood that the word 'tax' is taken to mean 'a compulsory contribution made to Government under stated conditions when the contribution is not a *quid pro quo* for a specific service rendered'.

Q. 10.—The point raised is very controversial, and the question can be answered differently according to the view taken as to whether the ordinary assessment on ordinary ryotwari land is to be classed primarily as a 'tax' or as a 'rent'. Assuming for the sake of argument that ordinary assessment is to be classed as a tax—though personally I incline to the view that it should be classed as a rent—it would appear that certain items which are included in the 'land revenue demand' of the Madras Presidency clearly do not fall within the definition of a 'tax'. The most important of these is the 'water-rate' levied for the use of water supplied from a Government source of irrigation to dry land. This is decidedly a charge for which a *quid pro quo* in the shape of water is given. Moreover, it is not a *compulsory* contribution, for the owner of the dry land need not take the water unless he desires to do so and he can cultivate his land without the aid of the water. The actual revenue realised from the supply of Government water to dry land must be very considerable. The actual figure is not available to me for reference. The ordinary land revenue demand undoubtedly also includes other items which clearly do not fall within the definition of a 'tax', e.g. —

(1) Sale-proceeds of lands sold.

(2) Revenue from process-service fees.

(3) Penal water-rate.

(4) Penalties for irregular occupation of land.

(5) Costs in suits.

(6) Sale of trees.

(7) Cost of demarcation stones.

(8) Demarcation fees, etc.

The amount of revenue realised from such items is considerable. Again, the actual figure is not available to me for reference.

Q. 11.—There are a few minor items of the nature of 'tree-tax' and 'sale-proceeds of trees' and 'the usufructs of trees' which are credited to the demand under 'Forests'. There are a few similar items which are

credited to the demand under 'Public Works Department'. There are also minor items such as 'fines on stray cattle' and 'fees in connection with the impounding of cattle' which are credited to the demand under 'Police'.

Q. 12.—No. In connection with every item of forest revenue the idea of equivalent benefit is very prominent.

Q. 15.—The charge for water supplied for irrigation is not always adequate and is sometimes grossly inadequate if by 'adequate' is meant that the charge levied for the water bears a reasonable proportion to the benefit derived from the water. Further, it is not always adequate if by 'adequate' is meant that the charge levied for the water bears a reasonable proportion to the cost of supplying the water. It is notorious that wet lands and irrigated dry lands are in many cases owned by non-cultivating proprietors who sub-let them for rents which are often many times the charge made for water. There seems to be little doubt but that some at least of the large works classed as unproductive works by Government would be converted into productive works by increasing the charge for water without imposing upon the land irrigated by the water a charge which the land could not bear with the greatest of ease. It is also notorious that in many cases ryots would willingly pay several times the water-rate normally charged by Government if they could secure a regular supply of water to lands which are now classed as dry. (The Periyar system of irrigation in the Madura district will afford illustrations in support of this view). Possibly in the case of the older and smaller works of irrigation mainly consisting of tanks and small river channels the charge made for water—whether it formed part of the wet assessment of wet lands or was a separate charge for the irrigation of dry lands—was originally adequate. But the tendency is for it to become less adequate with each resettlement. It is difficult to see on what principle the charge for water supplied for irrigation is now levied—more particularly in the case of large new works of irrigation. The charge for water supplied from these works follows the charge for water supplied from old and smaller works in the same district and is no measure of the extra benefit derived by the land from the supply of water to it and has hitherto been no measure of the cost of supplying water to lands previously unirrigated.

Concerning the five plans suggested for levying a charge for water, I would make the following remarks:

I do not understand the principle underlying the plan for charging only the bare cost of supplying water. To charge by volume is, I understand, an exceedingly difficult matter, and in the Madras Presidency is almost certainly impracticable. To sell water by auction to the highest bidder would create an objectionable class of middlemen, each of whom would possess a monopoly for the sale of water from a particular source and would be able to sell the water at monopoly prices. The system would, moreover, result in gambling on the monsoon with many attendant evils. The second and third plans deserve more consideration. There seems to be no particular reason why the *same* proportion of the combined output of land and water as would otherwise have been taken of the output of the land should be the basis of the charge for water, unless it be that this was presumably the principle underlying the charge for water made in the old ryotwari assessments in the Madras Presidency. Possibly, the result of adopting this system in connection with new works of irrigation would in some cases be to charge for the water a price which is inadequate with reference to the cost of supplying the water. On the whole, the charging of a fair commercial profit seems to be the soundest plan for the collection of charges for water. A question will of course at once arise as to what *is* a fair commercial profit. This is a matter which must mainly depend upon the value of the commodity supplied to the user, though it must also depend to some extent upon the cost of supplying. 'Fair commercial profit' must not be confounded with 'monopoly profit' in this connection. It is contrary to sound policy for the State to charge 'monopoly' rates for the supply of any commodity of which it has the monopoly. The charge for water need not, and in my opinion ought not, necessarily to be the same throughout the whole area commanded by a single irrigation system. I would illustrate my point by an example. The value of Periyar water to the holder of irrigable dry land in the Cumbum valley in the Madura district is very much greater than the value of the same water to the cultivator of irrigable dry land at the tail end of the Periyar delta in the same district.

Q. 16.—I am not quite sure that I understand what is meant by this question. In the case of agricultural land, the land presumably increases in value only because of the increase in the value of the crops

which it can produce. On this assumption, the obvious way to secure a share for the State in the increased value of the land caused by the supply of water is to charge a suitable sum for the supply of the water by the agency of which the value of the land has been increased. It seems reasonable that Government should take a share of this increased value of the land, as the increase is the result of the action of Government in supplying the water.

Q. 17.—Under section 30 (ii) and (iii) of the Madras Estates Land Act, the landholder can secure an enhancement of rent owing to the construction of a work of irrigation by himself or to the construction of a work of irrigation by Government if he has been made to pay a portion of the cost of the construction of the Government work.

Q. 33.—The answer to this question would depend upon the nature of the tax which is to be abolished, e.g.:

I do not consider that it would be proper to replace the tax on salt by only an increase in the rates of income-tax. If it were necessary to increase the rates of income-tax, such increase should be graduated so as to fall more heavily on the larger incomes.

Q. 34.—The present scheme of graduation works well enough. I do not know what the continental practice is. A scheme of graduation on the English system is unsuitable to conditions existing in India.

Q. 35.—No.

Q. 36.—No.

Q. 38.—I see no reason why the income of an absentee landlord, or the income of a money-lender who has become a landowner through the foreclosure of a mortgage, should be exempted from income-tax. I consider that the actual earnings of a farmer should *not* be liable to income-tax. The land revenue partakes more of the nature of a 'rent' than of the nature of a 'tax', and the burden of it is on the shoulders of the farmer. This must necessarily be so.

Q. 40.—I have yet to learn that the Indian limit of Rs. 2,000 as the income exempt from income-tax represents the actual cost of subsistence. I had always understood that the exemption of small incomes in India from income-tax was solely a question of whether the cost and inconvenience involved in collecting the tax was worth the money realised. On this understanding the second part of the question does not arise.

Q. 41.—Within limits income-tax is undoubtedly a tax on 'honesty' in India. To some extent this reproach is being removed by the two causes indicated, and in the Madras Presidency the reproach has probably been considerably removed.

Q. 42.—A standard form for trading accounts would be convenient; but I see no prospect of such accounts being properly kept by the ordinary income-tax assessee for many years to come.

Q. 43.—Such publicity methods are unsuitable to Indian conditions.

Q. 51.—Yes.

Q. 52.—Yes.

Q. 53.—The rate of tax at present imposed in India is low—unnecessarily low.

Q. 58.—I see no particular merit in the proposed change.

Q. 61.—I do not anticipate the introduction of a policy of total prohibition now or in the near future either generally or in particular areas. The administrative difficulties involved in the adoption of such a policy are insuperable in India.

Q. 63.—I accept the first and second statements. I do not accept the third statement because of the existence in it of the word 'only'. I accept the fourth statement. I accept the fifth statement. I do not understand the sixth statement.

Q. 64.—The policy followed in the Madras Presidency at the present moment is the policy of which I approve.

Q. 72.—Yes.

Q. 73.—Yes. The system to which I am referring is the disposal of annual licenses by auction.

Q. 74.—I do not accept the accuracy of the assertion in so far as arrack and toddy in the Madras Presidency are concerned. I have no reason to think that the prices now being obtained at the annual auction sales for licenses for the retail vend of arrack and toddy include anything in the nature of a monopoly value. Possibly, the question of monopoly value has to be considered in connection with the prices realised at the annual sales of licenses for the retail vend of intoxicating drugs. If so, it is only right that as much as possible of this monopoly value should go to the credit of the State in the shape of the increased license fees realised at the auction sales.

Q. 96.—By 'tax' I understand 'a compulsory contribution made to Government under stated conditions when the contribution is not a *quid pro quo* for a specific service rendered'.

By 'rent' I understand 'the price paid for the hire of land'.

Land revenue under the Madras ryotwari system is a 'rent'. In theory it is presumably half the 'economic' rent. In practice, it bears no fixed proportion to economic rent. It varies from a small fraction of such economic rent to a figure which approximates very closely to the whole economic rent. This approximation is of course reached only in the case of the very worst class of dry lands which have not yet been brought under cultivation, and which possibly never will be brought under cultivation. These lands possibly never would be brought under cultivation even if no land revenue at all were to be collected from them.

It seems to me that to regard 'land revenue' as a 'tax' presupposes private ownership. The Madras ryotwari system precludes any idea of the private ownership of land. It is to be noted that section 1 of the Madras Revenue Recovery Act, though it describes the ryotwari *pattadars* as landholders, describes them not as *owners* of land but as *holders* of land. The State is regarded as the ultimate owner and from the State's tenants who hold the *pattas* for ryotwari lands is collected rent in the shape of land revenue. The facts that the lease is a permanent lease, that the rent levied in the shape of land revenue is liable only to restricted enhancements or reductions, and that the *pattadar* has full rights to transfer his holding without the permission of the State, do not alter the nature of the relationship between the *pattadar* and Government. The fact that in the Madras Revenue Recovery Act the State's tenant is described as a landholder possibly *obscures* the real nature of the relationship between the State and its tenants, but cannot *alter* the nature of that relationship. So long as the *patta* stands in a particular man's name, he is regarded as the State's tenant for all the lands included in the *patta*—even if he has parted with them—and it is to him that the State looks for the payment of its rent, i.e., the land revenue for all the land included in the *patta*.

Land revenue in the Madras ryotwari system is not even a compulsory contribution made to Government. It is open to any *pattadar* to relinquish his land and thereby escape liability for the land revenue. Of course, a *pattadar* owning valuable land paying to Government in the shape of land revenue only a fraction of the economic rent of such land would not be so foolish as to surrender his holding merely to escape the payment of land revenue. The fact that the vast majority of ryotwari lands are of this description obscures the voluntary nature of the payment of land revenue; but that the contribution in the shape of land revenue is not compulsory becomes obvious when we deal with the worst class of lands in which land revenue approximates to economic rent. A piece of land is sometimes taken on *patta*, cultivated for two or three years and then relinquished to Government owing to the fact that the *pattadar* has discovered that the profits to be realised from the land are so small that it is not worth his while to cultivate the land and to pay land revenue to Government. Accordingly, he relinquishes the land.

The position is different with reference to lands included within the definition of an 'estate' contained in the Madras Estates Land Act. A landholder under this Act is described as the *owner* of an estate. The amount which he has to pay to Government in respect of the land which he owns is a fixed sum, which makes no pretence to be based upon economic or any other kind of rent. In a sense it is a 'rent'; but it is possible just as reasonably to regard it as a 'tax'. The point, however, is of

academic interest only. These landholders themselves collect rent from their tenants. Were the State now to step in and levy for itself a percentage of this rent, the levy would obviously be a 'tax'. The whole land has already been given over to a private owner who hands over the land to his tenants as a *quid pro quo* for the rent which they pay to him. The State has therefore no *quid pro quo* to give for such a levy. Under the ryotwari system, on the other hand, the land itself is actually given by the State as the *quid pro quo* for the land.

I am not in a position to speak about the systems in force in other parts of India.

Q. 97.—No. In the Madras Presidency the so-called land tax, being a rent which is practically invariably much less than the economic rent, cannot materially affect the prosperity of the cultivator. The chief causes which influence the prosperity of the actual cultivator are the season, the distribution and quantity of the rainfall, the existence or absence of agricultural pests, and his own industry and knowledge of agriculture. In addition to the land revenue, the actual cultivator very frequently pays a rent either in cash or kind for his holding to the person who holds the actual *patta* for the land from Government. The rent charged by these middlemen is frequently far in excess of the land revenue collected by Government. The existence of such rents levied by middlemen is sufficient to show that land revenue in itself does not, and cannot, affect the prosperity of the actual cultivator. Even in the case of the poorer class of lands which do not admit of the levy of rent by middlemen, land revenue does not, and cannot, affect the prosperity of the actual cultivator. Did it so affect his prosperity, this class of lands would go out of cultivation.

Q. 98.—The criticisms would appear to have been made by a person who is entirely ignorant of the actual facts of the Madras land revenue system. Whether he has actual practical knowledge of the land revenue systems of other provinces I do not know.

I believe that I am correct in quoting Adam Smith's own statement of his first canon as follows:

"Taxes should be equal, or proportional to the revenue which each man enjoys under the protection of the State, i.e., to his ability to pay; for the expense of Government to the individuals of a great nation is like to the expense of management *to the joint tenants of a great estate who are all obliged to contribute in proportion to their respective interests in the estate*".

It seems to me that the Madras ryotwari system fulfils the requirements of this canon as closely as it is possible for any system to fulfil them.

The second of Adam Smith's canons runs, I believe, as follows:—

"The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of paying, the amount to be paid ought all to be plain and clear to the contributor and every other person".

Again, the Madras ryotwari system fulfils closely the requirements of Adam Smith's canon. The time of payment is fixed. The manner of paying is fixed. The amount to be paid is fixed—at any rate for 30 years and the fact that it is liable to revision on definite known principles after 30 years is well known. 'Certain' is not the same thing as 'unalterable'. Time, manner and amount are all plain and clear to the contributor and to every other person. Even in respect of such miscellaneous items of land revenue as water-rate, *faslijasti*, etc., the Madras ryot is not faced by any element of uncertainty. The rates at which he is going to be charged are perfectly well known to him and the amount of land to which he is going to procure the application of these rates is a matter within his own discretion.

The third of Adam Smith's canons, I believe, runs as follows:—

"Every tax ought to be levied at the time and in the manner in which it is most likely to be convenient for the contributor to pay it".

This canon is strictly observed by the Madras ryotwari system. Particular care is taken to see that the time at which land revenue has to be paid is that most convenient to the actual cultivator. I do not know the supposed facts upon which the charge of tyranny and extortion are

based. Seeing that it is open to any *pattadar* to remit his land revenue by money order and that the amount to be paid and the time of payment are perfectly well known, it is difficult to see how there can be wholesale extortion. So too with tyranny.

In respect of the fourth of Adam Smith's canons, i.e., the 'economy' canon, the Madras ryotwari system perhaps lays itself open to criticism; but the criticism is ill-founded. It ignores actual facts. The charges of the district administration including the cost of village establishments amount to about 26 per cent of the collections of land revenue and cess; but the same district staff perform multifarious duties in addition to the collection of land revenue. Amongst other things they collect excise revenue. In 1923-24 the incidence per head of population for the Madras Presidency of land revenue and excise was respectively Rs. 1-10-2 and Rs. 1-3-9. It will thus be seen that owing to the factor of the collection of excise revenue alone, the apparent cost of collecting land revenue falls from about 26 per cent to something more in the neighbourhood of 16 or 17 per cent. Allowances have still to be made for the performance of numerous other duties by the establishment the cost of which is commonly (by ill-informed critics) described as the cost of collecting land revenue.

Q. 99.—The inequality is not serious owing to the fact that the increase in assessment at resettlements represents only a fraction of the percentage increase in prices which took place during the currency of the previous settlements. Inequality of this kind is unavoidable in practice.

Q. 100.—I have yet to learn that the income of Rs. 2,000 a year is considered to be the 'subsistence level' in India. The exemption of incomes below Rs. 2,000 a year from income-tax was given for reasons of practical administration and not with any idea that this figure of Rs. 2,000 represented the 'subsistence level'. This being so, the second part of the question does not arise. In any case, an agriculturist's *income is not* taxed. What is levied from agriculturists is a rent on their land.

Q.—101.—I know of no way to check fractionisation of holdings. A tax on mutations would certainly not check fractionisation, though it might prevent the registration of the fractions. From this point of view, the imposition of such a tax is to be deprecated.

Q. 102.—If this question suggests that waste land likely to be affected by a new irrigation scheme should not be allowed to be assigned by Government, my answer is in the affirmative. Once the waste land has actually become affected by the irrigation scheme, I see no reason why it should not be assigned. Government can secure its share in the increased value of the land by making a proper charge for the water and by selling the occupancy right in the land by auction.

Q. 103.—If by 'uniform plan' is meant 'uniform rates', then the adoption of such a uniform plan is impracticable owing to the different conditions existing in different municipalities. If by 'uniform plan' is meant a 'uniform method of calculating the rates', then such uniform plan is at present followed in the Madras Presidency. I certainly would not advocate the abandonment of this field of taxation to local authorities. The calculation of ground rents is a highly technical and difficult subject which is entirely unsuitable for final handling by amateur hands.

Q. 104.—The ordinary method of comparing the incidence of taxation is to divide the yield of the various taxes by the total population of the province under examination. The result of course is entirely meaningless; for no particular tax—other than taxes such as the salt tax is—is paid by every member of the population of the province. To answer this question of incidence properly, it is necessary to know what is meant by 'incidence'. If by 'incidence' is meant the average amount which each person paying land revenue actually pays, then none of the five methods indicated will produce the required result. If by 'incidence' is meant the average pressure of the land revenue upon the land itself, then the second method indicated will give the most satisfactory result.

Q. 106.—Yes.

Q. 108.—Of octroi I have no personal experience. It is difficult to see by what tax or taxes either house and land tax or land cess could be adequately replaced.

Q. 111.—I consider that there is every justification for the general maintenance of tolls in the Madras Presidency. I admit that they are objectionable; but as the result of investigations preliminary to an actual

attempt to abolish them in the Madura district, I have come decidedly to the conclusion that they cannot at present be replaced by any other form of tax and that they realise a tax which is properly placed upon the users of the roads for whose benefit the roads are maintained. I am not prepared to lay down any minimum limit of distance between one toll gate and another under the circumstances at present existing in the Madras Presidency. Were all toll gates under one central control, it might be possible to introduce a minimum limit of distance; but in view of the facts that municipalities control their own toll gates, and District Boards control their own toll gates, and that it is practically impossible for them to arrive at any mutual agreement for the division of the proceeds of toll gates on the boundaries of the jurisdictions of these bodies, these bodies must be left the right to institute toll gates where they consider that it is just for them to do so.

Q. 112.—The owner of any commodity subject to rent is able to shift the bulk of the burden of any tax levied upon the commodity on to his tenant, provided that the rent which he is extracting from his tenant is less by the amount of tax than the economic rent of the commodity. In my opinion, house and land tax and land cess should be levied primarily from the owner of property.

Q. 114.—In Madura Municipality houses whose annual rental value is Rs. 18 or less are exempted from house tax, provided that the owner does not pay either income-tax or profession tax.

In Dindigul Municipality properties whose annual rental value does not exceed Rs. 12 have been exempted from property tax.

In Periyakulam and Kodaikanal Municipalities no exemptions from property tax have been given.

Q. 115.—In the Madras Presidency within municipal limits ground rent is leviable on sites assigned under the town site rules, which apply to all municipalities and to unions which have a population of not less than 5,000 inhabitants residing in houses more or less contiguous, and which have a distinctly urban character. Ground rent is not levied on old house-sites which have been long under private occupation. Nor is it levied on *patta* lands assessed to ordinary ryotwari assessments, even though such lands may have been built upon. Where ground rent is levied it is calculated at 4 per cent of the freehold value of the land. In practice a scale of standard rates if followed and if the ground rent calculated is intermediate between two of the standard rates, the lower rate is adopted, and the difference between the ground rent actually calculated and the rate adopted is realised by recapitalising this difference at the rate of 4 per cent and collecting it as a purchase price for the land.

Such is the present policy concerning the levy of ground rent in the Madras Presidency. I gather, however, that the Committee's question relates rather to the taxation of the undeveloped value of land already owned by private persons—whether absolutely owned as in the case of the old house-sites already referred to above, or whether occupied on *patta* as in the case of the other class of lands already referred to as exempt from ground rent. Theoretically, of course, the undeveloped value of such lands is a fit subject for taxation, but in view of the fact that the attempt to tax such undeveloped value in England was a complete failure, I view with no enthusiasm the attempt to levy such a tax in the much more difficult conditions of India.

Q. 118.—Generally speaking, no.

Q. 163.—Generally speaking, yes.

Q. 164.—No.

Q. 165.—The answer to this question would depend upon the nature of the control exercised by the State in each particular case.

Q. 167.—Yes.

Q. 168.—The existing land revenue staff is not excessive for its present duties.

Q. 171.—Yes.

Written memorandum of Mr. Holdsworth.

Q. 96.—The differentia of a tax as opposed to a rent are—

(1) that it is a compulsory contribution to Government,

(2) that it involves Government in no specific *quid pro quo*, and

(3) that the rate of contribution is not fixed by competition or bargaining, but is fixed on such general considerations as seem good to the governing body.

A rent on the other hand is—

(1) A contractual payment to the owner or legal disposer of a given property.

(2) It involves a specific return in the form of rights to enjoyment in the property.

(3) The rates are fixed on the basis of the actual value of enjoyment in the property to the renter as influenced by what are known in economics as the factors of supply and demand.

The land tax of the Madras Presidency judged by these standards is in theory a rent, but in practice a tax. Inasmuch as it represents the commuted value of the Government's share in the produce and involves the theory of the ultimate ownership of the soil by Government, it is a rent paid to Government in return for the right of enjoying certain land. In practice, however, the sense of private property in land is growing at the expense of the theory of Government ownership. It is doubtful whether the modern ryot looks upon himself as the tenant of Government. He would probably regard the sale of land for arrears of land revenue, not as a lapse of tenancy owing to breach of contract but as a distraint on a defaulter's property, and the reversion of relinquished land to Government as on a par with the principle governing the disposal of treasure trove and analogous to escheat.

The above question is open to much discussion, but it must be admitted that the right of a *pattadar* under Government is much wider than that of the pure tenant. The ryote tenant of the Estates Land Act is not a real tenant but a special kind of *pattadar*. To find the real tenant in India we must go to the lessee. He pays as rent either a fixed amount or a proportion of the crop. The Government assessment represents a proportion of the crop but it seems to differ from rent as we find it in that the rates are not fixed by contract or bargaining. Further they are not based on the value of the actual crop grown but on the estimated outturn of each field in terms of some staple food grain. Considerations of competitive value which affect sale prices and lease rates are not considered. The scrutiny of such figures in a Madras settlement or resettlement is made to check the accuracy of the estimates already made on the basis of general outturns or a general rise in prices. In those parts of India where assessments are based on actual rentals the assessment approximates more to a rent than in Madras. The practice in recent resettlements of raising the assessment by a percentage much less than the percentage rise in the money value of the staple food grains has obscured the underlying theory that the land tax represents a share of the produce, and the recent order limiting enhancements to 18¾ per cent seems to abandon it altogether, and to involve the recognition of assessment as a tax that must be imposed subject to the general considerations that govern all taxation.

In any case, the Madras land tax is not a competitive rent. Settlement figures show that on an average it is about one-seventh of the letting value of the land.

Q. 97.—My experience is confined to the rich districts of Tanjore and Kistna. It is a general criticism of our existing rates of assessment that the richer lands are not as heavily burdened as the poorer. In as far as this criticism is justified it vitiates observations founded on a consideration of incidence in fertile deltas.

If the land tax seriously affected the prosperity of the cultivating owner, we should expect to find the inamdar much better off and the value of inam lands much higher than that of *ayan* lands. This, however, is

not apparent. If the assessment were a serious factor we should expect a fall in land values succeeding a resettlement. I do not know whether this aspect of the case has ever been carefully studied, but in Tanjore the sale value of land prior to the fixing of resettlement rates was compared with the value of lands for two years after the Government order sanctioning the enhanced rates had been published. No marked fall was obvious.

Prosperity depends largely on the adjustment of income to expenditure. It is not merely a matter of size of income. Such adjustment depends in its turn on uniformity of income and expenditure, year by year. This is the cultivator's difficulty. His income depends to a greater or less degree on the seasons. Where, as in the deltas, vicissitudes of season are minimised, he can count on a fairly regular outturn varying within narrow limits. His cultivation expenses are on the whole uniform, the only fluctuating item being the possible heavy replacement of cattle if disease breaks out. His assessment is for long periods constant. He can, as a rule, count on a regular surplus. If prices are steady, he can reckon on a constant money equivalent. His family expenses depend on the number of its members. This is an item that is likely to increase. He is also liable to heavy expenditure on marriages which seriously affect his financial position. As a rule, he puts his surplus, if any, into land, usually borrowing the balance of the purchase money. For small surpluses for which he has no immediate use, he finds a ready borrower at 12 per cent in some neighbouring ryot who has a marriage to celebrate or a new field to buy. My experience in settlement work suggests that the indebtedness of the ryot is usually due to one of three causes—

(1) An attempt to maintain too many people on too small an area.

(2) Extravagance in celebrating marriages.

(3) An unduly optimistic extension of his property on borrowed money.

The last two causes are instances of a failure to adjust income to expenditure and have nothing to do with the size of the income. The first cause is often the result of continued partition of the family property. A man in these circumstances can always take land on lease, and there is many a man who rescues himself and his family from such poverty by his industry on the lands of others.

In my enquiries I have very rarely heard the burden of the revenue advanced as a cause of economic difficulty. On the other hand, the ryots of tail-end villages have admitted that, given a regular water-supply, they did not care about the pitch of the assessment.

Lease values represent pure profit to the owner. Assessment is about one-sixth to one-seventh of these. The return reaped by the actual cultivating owner is greater than this, and I have found that on the basis of estimates voluntarily furnished by the ryots the assessment is about one-ninth to one-tenth of his outturn as commuted at the lowest selling price. As a rule, the assessment forms about one-eighth of his total yearly expenditure.

The above remarks relate to the cultivating owner. The question refers to the cultivator. The landless cultivator is not affected by assessment. It influences neither the rate for casual or regular labour nor the terms of leases.

Q. 98.—(1) In theory, the Madras assessment is on the land and does not take into consideration the crop grown or the circumstances of the cultivator. To that extent it ignores the 'ability of the subject to pay' whether higher or lower rates. In practice, however, resettlement rates are fixed only after a careful survey of the economic condition of the district affected and of its material progress during the preceding settlement period. The results of this examination are reflected in the proportion of the theoretically justifiable enhancement of existing rates which is actually imposed. While the 'ability to pay' of the individual ryot is not examined, the ability to pay of the ryot population in general is thoroughly considered.

(2) To the extent that assessments are liable to revision every 30 years there is the element of uncertainty about the land tax in Madras. There are, however, very few taxes that are fixed in perpetuity. Income-tax rates are revised whenever it is considered necessary. There is much

more uncertainty about other taxes than about the land tax which is unalterable for at least a generation. Revisions of other taxes are made on no other criterion than the necessity of the State. The land tax is revised in practice solely on a simple and invariable basis—the rise in the value of food grains. Reclassification or a revision of the fundamental basis of the assessment of individual fields is rarely done; and then only where a continuance of the existing classification would involve in material inequality in the assessment. It is not used as a device for increasing the total revenue. It frequently has the opposite effect.

Reasonable enhancements are imposed. Except in the most exceptional cases and in small and special areas, recent enhancements have never exceeded one-third, and more recently one-fourth was the usual rate. For the future a maximum of $18\frac{3}{4}$ per cent has been fixed. Invariably, the rise in the value of food grains has been double and usually more than double the enhancement imposed. It is sometimes said that in Madras we have a permanent settlement in terms of grain. Actually we have a progressively diminishing revenue in terms of purchasing money.

(3) It is not obvious how any system could be less open to tyranny and extortion than the ryotwari system as known in Madras. Each ryot has his *patta* on which is recorded the fields in respect of which he has to pay assessment together with the area and charge on each field. This is invariable during the currency of the settlement. Where, however, the ryot cultivates waste or *poramboke* land or wet crops on a dry field of two crops on a single-crop field, he is liable to an extra charge which is calculated on fixed and known rules for the areas on which it is actually incurred. It is, however, always open to the ryot to apply for *patta* for the waste he cultivates, to get his field transferred from dry to wet and pay a consolidated and unvarying rate, and to compound for his two wet crops. In other words, he can substitute for the fluctuating items a fixed item in his *patta*.

A modern resettlement involves *in itself* very few subordinates and they are mostly in offices. There is no horde of grasping classifiers loosed on the district.

In Madras the *kist* season follows the harvest. This must be so if Government are to be reasonably sure of realising the revenue. The convenience of the times and instalments fixed for each district are always examined at a resettlement.

(4) It is fallacious to compare the percentage costs of collection of various taxes without taking into account the total amount realised thereby. The State requires a certain sum to meet its obligations. It is no doubt feasible to obtain a certain part of that sum by imposing taxes easy and cheap to collect but taxation, like other things, is subject to marginal returns. It would be unfair, for example, to compare the cost of collecting income-tax on incomes above Rs. 2,000 with the cost of collecting land revenue which is made up of many minute contributions. If the taxable basis were lowered the percentage costs of collecting income-tax would rapidly increase.

It is well known that the revenue staff performs many functions besides the collection of land revenue. Apart, however, from this, much of the expenses of collections could be saved if some means could be devised of substituting for the fluctuating items of revenue a consolidated or compounded charge. This question is under investigation. I would further submit that the maintenance of the registry of *pattadars* is an expensive item which is not properly debitable to costs of collection. As long as the assessment is secured on the land, it seems unnecessary for Government to take expensive measures to keep the registry of *pattadars* up to date simply for the sake of its revenue. The onus might be thrown on the ryot. The main difficulty in this work at present is the indifference of the ryot to registry. Government's idea has hitherto been to maintain in the interest of the ryot as accurate a registry as possible in return for the revenue. The cost of maintaining registry is therefore not an expense of collection but a public service.

Q. 99.—The Board of Revenue has replied to this question. Another factor that has tended to keep rates at a similar level has been the progressively decreasing proportion of the rise in prices that has been added

to the revenue assessment, and the natural tendency of Settlement Officers to be guided by the rates approved by Government in the districts resettled immediately before their own.

Q. 100.—Rs. 2,000 is well above the subsistence level in Madras. It represents Rs. 166 a month, a rate of pay that only two subordinate members of a settlement party can draw. It represents the net income from about 30 acres of good wet land. There are many ryots who save and buy more land on less than half this holding. It would be extremely difficult for a taxing officer to estimate a ryot's income and allow for the necessary cultivation expenses. Ryots often own land in several villages, and the Government accounts are villagewar only. It would be necessary to examine the accounts of several villages and question the *karnams* to collect the total holding of a ryot. It would be essential to decide in each individual case the legitimate cultivation expenses to be allowed. To estimate a general scale for cultivation expenses has been found extremely difficult in settlement, and the attempt is no longer made. There would be no evidence for the actual outturn of any particular year or for the price realised beyond the ryot's own admissions. He rarely keeps accounts. Any attempt to decide on the total income must therefore degenerate into the application of some such general principles and rules as we adopt in settlement. It would be applied to individuals instead of to a district; it would recur every year instead of once in 30 years. It would probably mean individual appeals, and the expense and trouble would doubtless be out of all proportion to the revenue secured. If complete exemption below Rs. 2,000 were granted, there would certainly be a good deal of real or nominal fractionisation of holdings, but it would affect only the larger holders as an income of Rs. 2,000 requires about 30 acres of paddy land or 130 acres of ordinary wet land. If there were a partial rebate of assessment on incomes below Rs. 2,000, the effect would be less as the dangers of real or fictitious fractionisation would be held to outweigh the *kist* saved, for in general the ryot does not consider it a serious item in his economy.

Q. 101.—An indiscriminate tax on mutations would neutralise the process of the consolidation of holdings which is going on side by side with their fractionisation. The ryot with a little money to spare always casts his eye on the field next door and one constantly finds that many sales of land are really exchanges between ryots to consolidate their respective holdings. It is doubtful whether a tax on mutations would check the fractionisation which is an integral part of Hindu social customs and inheritance. It might tend to drive it underground. It would also impede the only system of deposit that the ryots commonly practise. Instead of paying his savings into a bank he secures them in land until such time as a marriage or some emergency comes along when a sale realises his capital and he meets his expenses.

Some tax on partitions of landed property might do something but it would probably be evaded by *benami* sales. It is almost impossible by legislation to change the rooted social habits of the governed. Until there is some sign that public opinion would welcome and support some such legislation as is suggested it would be a failure.

Q. 102.—This principle is applied to the disposal of *lanka* and *padugai* land in this district. The right to cultivate these lands is leased out for varying terms by auction. The financial advantage of such a course is well illustrated by the difference between the assessment on *lanka* lands in which *patta* rights were formerly acquired and the bid secured for the adjoining leased land. The lease is often Rs. 100 an acre. The highest assessment known is Rs. 13.

The question that arises in this connection is whether such a course is calculated to secure the development of a newly opened tract. The tenant is not likely to give the land the same care and attention as the owner. In the case of *lankas* and *padugais* the yearly submersion by the river floods compensates for any neglect by a temporary tenant. It is difficult to see on what basis enjoyment is to be permitted except on that of leasing to the highest bidder. This form of rack-renting is not compatible with the position of Government in respect of permanent tracts as opposed to the elusive *lanka*.

Messrs. Hall and Holdsworth gave oral evidence as follows :—

The President. Q.—Where are you Collector?

Mr. Hall. A.—At Madura.

Q.—Have you done settlement work in any district?

A.—I have not done any settlement at all.

Q.—You have come to advise us on land revenue principles?

A.—On ordinary administration. As regards the settlement side of land revenue, I have no practical experience. I pointed that out and suggested that a Settlement Officer should come with me. The settlement part of the work does not come very much into the actual district administration.

Q.—Can you apply your definition of a tax to items 2, 3, 4 and 5 referred to in your statement (Q. 10) and tell us whether these items come under the category of tax or non-tax revenue?

A.—Item 2, revenue from process-service fees: it is merely a fee to cover the cost of establishment required for the collection of land revenue.

Q.—If the collection more than covers the cost, is that an item of compulsory contribution?

A.—It is merely bad budgeting.

Q.—The other condition is that the contribution is not a *quid pro quo*.

A.—If there is a surplus from process-service fees, it is more in the nature of a penalty.

Q.—What is a penalty?

A.—It is a punishment.

Q.—Let us look at it from the purely economic point of view. Is it a compulsory contribution under stated conditions when the contribution is not a *quid pro quo*?

A.—You might just as well say that a fine in a magistrate's court is a tax.

Sir Percy Thompson. Q.—Sums which Government has to disburse in obtaining payment of debt cannot very well be regarded as a tax.

A.—It is no more a tax than a fine in a magistrate's court is a tax.

Dr. Hyder. Q.—How will you class penalties? Are they for services rendered?

A.—The penalty for irregular occupation of land is a punishment. We want to turn the occupant out, and therefore we levy a penalty.

Q.—I quite agree that the man has no business to be on the land which does not belong to him, but when Government exacts a monetary contribution from him, the man has to pay just as we pay income-tax. What is the *quid pro quo* that he gets?

A.—Is a fine in a magistrate's court to be regarded as a tax?

Q.—Yes.

A.—If so, my answer is that this penalty too is a tax.

Dr. Paranjpye. Q.—It is not a compulsory contribution. He could have avoided it.

A.—My definition is '*a* compulsory contribution', not '*all* compulsory contributions'.

Sir Percy Thompson. Q.—A tax is a compulsory contribution made to Government under stated conditions when the contribution is not a *quid pro quo*; that is perfectly true; on the other hand, a compulsory contribution made to Government under stated conditions when the contribution is not a *quid pro quo* is not necessarily a tax.

A.—That is my whole point.

Dr. Hyder. Q.—What is land revenue, a rent or a tax?

A.—It is undoubtedly rent.

Q.—What is it in the case of permanently-settled areas?

A.—I am not prepared to give a definite opinion about that. My experience of permanently-settled areas is limited to the zamindaris in Madras. In their case in a sense, it is a rent; but might be argued reasonably that it is more in the nature of a tax.

Sir Percy Thompson.—I thought it was the other way round.

The Maharajadhiraja Bahadur of Burdwan. Q.—What the ryot pays to Government in a ryotwari or temporarily settled area is undoubtedly more in the nature of a rent than a tax, but you say that in a permanently-settled area, what the zamindar pays to Government is more of the nature of a tax than a rent.

A.—I think it might be argued so.

Sir Percy Thompson. Q.—I put it to you this way: in a ryotwari area it is more in the nature of a rent: in a zamindari area, where it is fixed, it is more in the nature of a 'rent charge' which does not vary with reference to the annual value of the land. You know the system of feuing in Scotland, where you let land on permanent tenure. The reason you call it a rent charge is that it does not tend to approach a rack-rent, but it is a fixed encumbrance on the land.

A.—I didn't say it was my own view. For all practical purposes, it is immaterial whether we regard it as a tax or a rent.

Q.—In a permanently-settled area, a man may have let a piece of land for Rs. 200: the fixed land revenue for it is Rs. 30. Can he argue that he pays a tax of 15 per cent on his income by way of land revenue?

A.—Personally, I would not accept this argument.

Q.—But if you treat it as a tax with all the implications of a tax, he would be in a position to say that.

A.—Yes. My point really was that we treat a ryotwari tenant as our tenant, we revise his rent and we give him remission. As regards the permanently-assessed zamindar, he pays his land revenue and we have no further concern with him.

Q.—You cannot turn your tenant out?

A.—You can't except under certain specified circumstances. If he does not pay his rent, you can turn him out. In the case of the poorest classes of land, it frequently happens that he is turned out. I have dealt with the matter in detail in my answer to Q. 96.

Dr. Hyder. Q.—What is the Periyar system of irrigation in the Madura district?

A.—The water is drawn from an artificial lake which has been created by putting a dam across a river flowing to the West Coast. The lake is actually in the territory of the Travancore State, but we have a lease for (I think) 999 years. We have made a tunnel through the hill on the Madura side and have let the water down through this tunnel into a river which naturally drains towards Madura. We take the water down the bed of this river for many miles to a regulator dam which has been built across the river at the head works of the Periyar main canal. We have drawn off into the canal all the water which we put into the river from the lake. From that canal we irrigate about 130,000 acres of wet land. Immediately after it leaves the tunnel, the water flows through a natural upland valley which gets the wash from the hills around it and is good land. This particular valley was not included in the *ayacut* proposed for this irrigation system, and most of it is not irrigated by it, though practically the whole valley could probably be commanded by the system if sufficient water could be spared to irrigate this area. The system was originally intended as a famine protection work to protect an entirely different part of the Madura district. As a matter of fact, now a considerable amount of irrigation from the Periyar system takes place in the valley and can be allowed, as protection from famine has been given to what is known as the delta of the system when the protection was required and where over a lakh of acres is irrigated by the system.

The President. Q.—Would you also explain the relation between the Periyar works and zamindari lands?

A.—There are few zamindari lands in the valley. Most of them are lower down the system—below the point where the canal takes off from the regulator.

Q.—Would you explain it from the point of view of the charge made on zamindari lands?

A.—Below the regulator, we let water out from the canal by numerous side channels. Part of the irrigation from the channels is direct, but they also feed the old tank system of this part of the Madura district. The tanks, of course, now get a regular nine months' supply, instead of being dependent on rainfall. Many of these are inam tanks and some are zamin tanks. If a tank fitted in as part of the system, it was supplied with water. Every suitable tank was brought into the system. The engineers did not mind whether it was a Government tank, or a zamindari tank or an inam tank. If water could be taken to it easily and water was available, water was put into it. The result is that that part of Madura, instead of being a famine tract, is now one of the richest parts of the whole Presidency.

Q.—But as regards the charge on the zamindari land?

A.—A special reduced charge is made in the case of the zamindari and inam wet lands.

Q.—They pay a water rate?

A.—Yes; they pay Rs. 4 instead of the usual charge of Rs. 5. They had tanks which already got a certain supply. In the case of two particular channels at present no charge is levied at all on the pre-Periyar *mamul* wet land: but there seems to be very little doubt that those particular wet lands were not benefited by the introduction of the Periyar water. They are in the upland valley.

Dr. Hyder. Q.—Are the rates for water adequate in your Presidency?

A.—That is a question which I cannot answer off-hand. They are adequate in some cases and totally inadequate in others.

Q.—That is in the famine districts, and in the case of protective works?

A.—For instance, in the upland valley of the Periyar system, they are totally inadequate.

Q.—In the Kistna and Godavari districts?

A.—I do not know anything about that area.

Q.—Do you accept the principle that the State should aim in fixing the water-rates at some compromise between these two things: that you should never charge less on productive schemes than what it costs you to supply the water; and you should never go beyond the value of the water to the people who take the water? Would that be a good working principle?

A.—It *is* more or less the working principle.

Q.—Now coming to the five plans suggested, you say "To charge by volume is an exceedingly difficult matter and in the Madras Presidency is almost certainly impracticable"?

A.—Of course, it is purely a technical matter. But I think it is difficult. In Nellore district I understand that investigations were made and the idea was given up as impracticable.

The President. Q.—It is not so much an engineering question; you could do it if you have the villagers co-operating.

A.—If you could get the villages to combine to look after the channel, then it might work.

Q.—Would your Madura villages combine?

A.—Certainly not. We tried in Madura the local control of channels taking off from the river and supplying more than a single village, and the result was so disastrous that we had to resume control a couple of years ago.

Dr. Hyder. Q.—Would you have the rates uniform for homogeneous economic areas?

A.—Naturally they would be.

Q.—People coming under the Mettur-Kaveri project say "You charge us Rs. 15 and the Godavari and Kistna people Rs. 5". Then where is the equality? Supposing all the places fall in one economic area, would you have one uniform rate?

A.—No. Take the Periyar system alone. I was prepared to recommend a rate of Rs. 25 per acre in one particular part of it. But I am certainly not prepared to recommend Rs. 25 at the tail-end of the delta. I do not think more than Rs. 5 would be a fair charge in some portions.

The President. Q.—Then your areas are not homogeneous?

A.—I do not think the whole of the Kistna and Godavari deltas can be classed as homogeneous. In Madura, we have the Cumbum valley; we have the double-crop area and the single-crop area. Throughout the single-crop area certainly it would be one single rate. You could get a homogeneous area for which one rate would apply.

Dr. Hyder. Q.—Would you treat irrigation schemes as one indivisible whole as regards the charge?

A.—Each system should be taken on its own merits and charged according to the circumstances, e.g., the nature of the land, what benefit the water is going to bring to it and so on.

Q.—Then the practical consequences that would follow would be that there will be different rates in the Madras Presidency for different areas. Thus, there would be some areas in which the State will really lose. The economic conditions practically are such that the people cannot afford to pay the bare return on the construction of the project.

A.—I have not come across that kind of case.

The President. Q.—There are cases where water is put on the land and they do not use it.

A.—There may be; but I have not come across them.

Dr. Hyder. Q.—The Government is bound to construct protective works; it is the duty of the Government.

A.—If they are constructed purely and simply as famine protective works, the whole question of taxation disappears altogether. I rule out of consideration those works which are purely famine works as you are bound to lose on such works in the beginning, but ultimately you may gain.

The President. Q.—With regard to Q. 16 you mentioned just now a certain area in which you would levy a rate of Rs. 25; but it is rather difficult to get the cultivators to assent to a really big water-rate.

A.—I have not found that. Some years ago there was a question in the Palghat taluk in Malabar of putting up dams and making small irrigation works and of giving the ryot an assured supply of water to raise his crops. The cost of construction of these works was such that we did not expect that at the approved water-rates which were then current they would yield a return. But these ryots, to my own knowledge, were willing to pay twice that approved water-rate and were actually paying such an increased rate to the owners of private irrigation works.

Q.—But even that twice would be a great deal less than the increased return from their land.

A.—Yes.

Q.—So that in addition to their getting a considerable profit from the land, you also get a considerable amount of increased capital value?

A.—Yes.

Q.—What is suggested is that in places where you are not prepared to impose the full rate necessary to make your scheme pay, you may get them to consent to pay a normal rate *plus* either a lump sum at once or a betterment tax for a term of years.

A.—I doubt it. I do not think the ordinary man will be willing to pay that.

Q.—In the Godavari and Kistna they are charging an inclusion fee which is a payment practically for guaranteed supply.

A.—That may be. I am speaking from my own experience. I know nothing about the Kistna and Godavari.

Q.—By supplying the water the Government is giving a large increment in the capital value

A.—Yes.

Q.—And therefore, it is entitled to take part of it?

A.—Yes. My own preference is to take it in the shape of water-rate.

Sir Percy Thompson. Q.—Whether or not the Government gives a large capital value depends upon the water-rate. If the water-rate is a full one, so as to absorb the whole of the increased annual value, there won't be any increment in capital value at all.

A.—Yes. So far as my experience goes, the ryots are perfectly willing to pay a high water-rate. It is an exploded theory that they will not pay a high water-rate.

Q.—With regard to income-tax, why do you say that the scheme of graduation on the English system is unsuitable to the conditions existing in India? Is it more complicated?

A.—Yes. I think it is too complicated.

Q.—Surely, it is simpler; you have one rate in place of a number of rates.

A.—I was thinking of the system of allowances for children and wives.

Q.—But I was referring to a system of having a uniform rate and exempting the first slice of the income and then charging the rest of it at one rate.

A.—That is simple enough. I was thinking of the other thing. That would be very difficult to deal with in India.

Q.—With regard to Q. 38 you say that the actual earnings of the farmer should not be liable to income-tax?

A.—Yes.

Q.—Why do you differentiate between a farmer and a rent-receiver?

A.—There is the old *idea* of the pledge that the person who actually paid land revenue would not be liable to the income-tax.

Q.—Do you mean the pledge at the time of the permanent settlement?

A.—I do not know the details. I only know that there is some such *idea* that the actual farmer's income is not to be taxed.

Q.—I do not know there has been such an idea. I have never heard it argued.

A.—The landholder certainly argues it. But I do not remember the actual details of it. I do not know the origin, but the idea is certainly current. It is this way perhaps. It has come to be regarded—I do not say rightly regarded—that the person who actually pays the land revenue is not to be assessed to income-tax, because he pays the land revenue.

Q.—Granting it to be true, let us suppose that it prevails so far as the zamindar is concerned. But the zamindar has a tenant who cultivates and pays a rent to him; what the tenant pays is not land revenue at all.

A.—I should have said the 'ryotwari farmer'.

Q.—Suppose you had a tax on agricultural incomes, what is your view as to the difficulty of collection? Would it be a big business?

A.—Yes; it would increase the machinery enormously.

Q.—Why?

A.—The number of assessees would be so great.

The President. Q.—The number of ryots in Madura who pay a land revenue of Rs. 250 would be quite a small number, I think. Would it be a hundred?

A.—You could not levy income-tax on the *patta*.

Q.—Why should it be any more difficult to discover agricultural income than trading income?

A.—Because the sources of income are much more difficult to get at and are scattered over many places. Also the farmer does not keep accounts.

Q.—In the case of trading income, you have to base your assessment on any information that you may get?

A.—Not nowadays.

Q.—Leaving out of account the amount of income, to discover whether the man was making an assessable income, you have no clue to follow up, but with regard to the ryot, you have got the list of *pattadars*.

A.—The land revenue shown in the *patta* is no indication of the income, and the name shown in the *patta* is no indication of the earner of the income.

Q.—But still you have not got to go from house to house. You have only to ask the *karnam* for the list of men who have *pattas*.

A.—But the amount in the *patta* is no guide at all. A *patta* may be for Rs. 25 and the income may be Rs. 50 or Rs. 250. Also a man probably has half a dozen *pattas*.

Q.—You can know that a man with a certain *patta* is within certain limits.

A.—Think of the work of comparing the *pattadars* of one village with the *pattadars* of other villages. A man may have lands in different villages. In the case of a trader, this does not arise. He has got a definite number of branches.

Q.—You have a certain amount of clue in the case of an agriculturist.

A.—You may have a certain amount of clue; but if you are to do the work scientifically, you cannot proceed on the basis of the *patta*.

Q.—I am assuming that you are going to do it no more scientifically than you do with the trader.

A.—The special staff which we have now knows most of the trading conditions, and they have not to look very far.

Q.—We were told yesterday that one of the largest companies in the Presidency escaped taxation last year.

A.—It is perfectly true there may be an isolated case. But I have not seen one in the last ten years.

Q.—You might adopt the English system of assessing him with reference to his rent or land revenue; you give him the option of paying on an assumed income which is a function of his rent or of showing his accounts.

A.—You tax him according to the land revenue?

Q.—In England you assume that his income is equal to the rent.

A.—How can you get his income from the *patta*?

Q.—Land revenue bears a different proportion to the income in nearly every case?

A.—Yes.

Q.—Although it is presumed to be a definite fraction of the income?

A.—The fraction in practice varies from *patta* to *patta* or from field to field.

Dr. Paranjpye. Q.—Suppose you go to a village and ask the village headman to examine the list of *pattadars*. Ask him to find out from those names those who are likely to be chargeable to income-tax. Would he not be able to pick them out?

A.—He would, as regards that village.

Q.—Then from that, you can find the people who are chargeable to income-tax.

A.—But the holdings are scattered through perhaps twenty or thirty villages.

Q.—Each village headman knows that.

A.—No; he can only tell you whether a person is a substantial man in a general sort of way.

Q.—After you get a list of substantial men, who will probably be 5 per cent of the total number, all that the income-tax department has to do is to send them a printed form asking them to give a return of their true income.

Or you might ask them what land revenue they pay and you can put an assumed income on that. In this way, it would be fairly easy to work. It would not take a long time to find the names of those likely assessees.

A.—By doing so, you may obtain a fairly good list of a certain number of people who are liable to pay income-tax. But there would be a large number of people who are liable to pay, but who do not appear in your list. A man who has a small holding here and a small holding there cannot come into that list.

Q.—But would not the village headman know that?

A.—No. The man is possibly a vakil or a resident of another village.

Q.—The mere fact that he is a vakil shows that he is a substantial man.

A.—The *karnam* does not always know that. Sometimes he does, and sometimes he does not. We have a considerable amount of difficulty in realising our land revenue from absentee *pattadars*, especially where their holdings are scattered. Of course, it is quite easy to produce a list of a certain number of agricultural men who would be liable to income-tax; but whether that would cover all the people liable to the tax, I do not know though I am almost certain that it would *not*.

Sir Percy Thompson. Q.—Suppose you have got this list and you send out the tax forms; what is going to be the attitude of the cultivating agriculturist with regard to this form? Does he really know his income? Does he not consume quite a good deal of his produce?

A.—The cultivating assessee would have the greatest difficulty in filling up the form.

Q.—Quite apart from the people who have got incomes of Rs. 2,000 and above from land, there will be people—and we are told they are a large number in India—who hold small interests in land. If a man has otherwise an income of Rs. 2,000, that will have to be included. We were told yesterday that it would be easy if there was a sort of liaison between the income-tax office and the Collector's office.

A.—I think that is rather a sketchy and airy way of approaching the matter.

The President. Q.—With regard to salt, is the ordinary villager aware of the fact that the duty is levied on the weight? The sale is by the measure and therefore, the more measures there are, the more the profit of the dealer.

A.—He is not aware of the fact.

Q.—So that if a light salt is substituted for a heavy salt he gets so much less, and pays more.

A.—It doesn't worry him, the salt tax is negligible in villages.

Q.—Couldn't you add the capitalized value of land revenue to that of the land?

A.—In making use of the capital value, are we to assume that tenant's improvements are going to be taxed in future?

Q.—Do you tax that at present?

A.—We say that tenant's improvements are not to be taxed; if you adopt a system of capital value our tenant's improvements will be included in it.

Q.—You settle your land at a certain rate per *tharam*, whether they are tenants' improvements or not, and you have one rate for all?

A.—In that case, capital value may be different.

Q.—But your capital valuation for purposes of taxation would apply to all the lands in the same *tharam*. You would not attempt to ascertain the value of each particular holding, but you would have one rate for a large homogeneous area.

A.—You would have to base that on the record of actual transactions, which includes the value of tenants' improvements. You get the same difficulty in assessing ground rent.

Q.—But that difficulty arises in connection with your land at present. You have to make your allowances in settlement at present, using the same data.

A.—But then the record of transactions might not exist.

Q.—You have a great many sale transactions.

A.—Even then, the unimproved value is different.

Q.—You have heaps of transactions in regard to ordinary wet and dry lands.

A.—In very many wet lands there are tenants' improvements.

Q.—You won't discount old improvements?

A.—I think we do.

Q.—If a piece of high land was levelled down to make it irrigable?

Mr. Holdsworth. A.—We won't call that an improvement; we do not charge extra for a well.

Dr. Hyder. Q.—As regards the proposal to take 1 per cent or 2 per cent of the capital value of land, don't you think this proposal has these advantages? You would have your land mapped out in the districts of the Presidency and you would have a uniform rate for the entire agricultural land of the Presidency. You cannot say that in respect of the present land revenue. The proposal would have the merit of intelligibility.

A.—The capital value of land to the ordinary buyer and seller of land is its capital value with improvements, whereas the capital value on which you are going to levy a tax is something entirely different. Your tax will bear no regular fixed relationship to the capital value as understood by the owner of land.

Dr. Paranjpye. Q.—Could you not discount for the improvements in this manner? Say, for instance, a man spends Rs. 500 on his land. You may deduct from the total capital value Rs. 500 for the improvement in the first year, Rs. 490 in the second year and so on, until the value of the improvement is completely wiped out in fifty years.

A.—Practical difficulties must occur in working out such a system. It would be impossible to have any satisfactory basis.

Q.—All improvements which a tenant can claim at the moment when you start this system can be supposed to have been included.

A.—The practical difficulties involved are very large. No two persons agree as to the value of any improvement.

Q.—Yet, these things are taken account of in settlements?

A.—Settlement is a very rough thing.

Q.—And the rates are unequal?

Mr. Holdsworth. A.—I am not sure that in practice they are so unequal. I was regarding it as between districts. In unsettled districts themselves, you certainly get very unequal rates, but that is due to the fact that Government haven't the powers to take actually half the net produce of the land as land revenue, and the more valuable the classes of land for which you take a reduced proportion, the greater the divergence from economic rent. If Government had been consistent and had stuck to half the net value, the inequality would not occur.

Dr. Hyder. Q.—In view of the fact that Government does not stick to one uniform principle, don't you think that, all things considered, it would conduce to uniformity, at any rate intelligibility, if Government took only 1 per cent or 2½ per cent of the capital value—leave alone the difficulties of measuring the capital value?

A.—I do not think that the fact that Government agree to a restricted proportion of the increase, or the fact that in the past they have not taken half the net assets, would justify a change. To put forward a new system of taxation entirely as a better system on its own merits is a different matter. Personally I am rather doubtful about the capital value, more particularly with reference to the district of Malabar which I know very well. One of our greatest difficulties there was, in land acquisition cases, to arrive at the capital value of *land*. It was almost impossible to get any court to accept our valuations.

Q.—Are there no transfers of rights or interests in land in Malabar?

A.—There are any number of them.

Q.—How do they get at the capital value of such rights?

A.—They include tenants' improvements. There are practically no transactions of land in a non-improved condition.

Q.—Is that capital value?

A.—Yes, as the tenant understands it, of the *property, not* of the land.

Q.—The question is as to how you value the tenants' improvements.

A.—When one considers it theoretically, it does not seem very difficult, but practically it is exceedingly difficult. Had it not been difficult to do that, I do not think you would have had the present agitation about Malabar tenancy. These difficulties in the valuation of land as distinguished from the property comprising land and improvements, have been brought particularly to my notice in Malabar. I spent nine years in the district. As most of the land is improved, it is very difficult to separate the value of land from the value of the property.

Dr. Paranjpye. Q.—Don't you think that the improvement could be wiped out in fifty years?

A.—That is an arbitrary method of doing it. I don't know if your tenant will accept it. I quite see the principle: in fact there is no doubt that we have to use it ourselves in valuing land.

Q.—If you like, some improvements could be wiped out in 100 years and some others in 50?

A.—We actually have to make use of such principles in attempting to arrive at the value of land.

Sir Percy Thompson. Q.—You don't take particular exception to tolls?

A.—I object to them very strongly.

Q.—You say that there is every justification for the general maintenance of tolls.

A.—Because there is no other means for collecting a charge for the use of roads. I am speaking from my own investigations with reference to a proposal to abolish tolls, which had my strongest support.

Q.—Would it not be possible to charge a license duty on motor cars?

A.—It would be very easy, but the toll bar would still exist. It is on the existence of the toll bar that everything else depends, you would still have to use it.

Q.—Not if you gave the drivers of motor cars some sort of mark showing that they have taken a license.

A.—I very prominently display my own exemption pass, but still I have to pull my car up at every toll gate.

Q.—If this system were generally in force, you would not have to.

A.—With the present class of persons who control the toll gates, you certainly would have to. It comes to this: that the rural districts of the Madras Presidency are not sufficiently advanced for the introduction of the system. To get rid of the nuisance for motorists would be easy enough. We can license them to go through all tolls.

Q.—The difficulty is that agricultural carts never go through the toll?

A.—They do: these carts are very often exempted from payment.

Q.—If the motorists could adopt some system by which automatically they could get through the toll, you would have done a great deal.

A.—I am one of the bitterest critics of the toll: a difficulty exists when you try to find a substitute for tolls.

Q.—But you would have got rid of half the difficulty if you adopted a system with regard to motor cars.

A.—Yes: as a matter of fact, in some districts, most motorists take out a license and compound the fee, but it has not yet been made compulsory for all motorists to compound tolls.

Q.—Could you make it compulsory?

A.—We could easily do it. It would only be a question of averaging out and fixing rates: some motors would gain, some would lose, but there would be a distinct general advantage.

Q.—Do you happen to know Tuticorin?

A.—No.

Q.—In Tuticorin up to 1908, ground rent on Government lands was settled in a variety of ways. In 1912 ground rent was ranging from 4 annas up to well over Rs. 100 an acre. Since 1908, the ground rent has been approximately equivalent to a rack-rent on the land and this was sold by auction. In 1912, when the resettlement came along, the rates were enhanced, not up to their real value, but up to rates varying from Rs. 25 to Rs. 37½. At that time it was decided to do nothing with regard to lands which were not then subject to ground rent, but to leave them free. Can you tell me what the justification for that decision was?

A.—No.

Q.—Don't you think very large revenue could be got from such land which is simply running to waste?

A.—I do. Certainly there exists a case for interference. You may have two spots side by side, one of which was assigned twenty years ago and the other last year. One may be paying no ground rent at all, while the other may be paying at the rate of Rs. 250. You cannot say what the rate per acre is.

The President. Q.—How do you deal with the difficulty? Would you impose a tax on capital value?

A.—You mean the actual value to-day as house-site?

Q.—Or even devoloped value, or even with the house.

A.—No.

Sir Percy Thompson. Q.—If you put a tax on capital value, would you not be hitting those lands paying a full rack-rent just as much as lands paying four annas?

A.—The capital value would approximately be the same. You would have to get rid of the existing state of things and substitute a new tax altogether which would equally apply to old as well as new assignments.

Q.—It is a question of ordinary land being let on ground rent at its full value.

A.—It is a full economic rent in this case.

Q.—The man gets it subject to a rent of Rs. 200: he paid Rs. 3,000 at auction and will say that it is worth Rs. 7,000.

A.—In such a case it is not likely that he would be paying the full ground rent. As far as possible, we exact the full ground rent by adopting a rate which ensures that the purchase price must be very small.

Q.—Take a case where he pays the full price; Government cannot say that he paid too much or too little. But suppose there is another site in the neighbourhood which was let thirty years ago for 4 annas?

A.—Those two sites should pay the same tax.

Q.—Is that fair?

A.—Certainly: from the point of view of taxation, it is fair to abolish the existing ground rent.

Q.—You would let every body off that bargain?

A.—Otherwise, you would tax the same piece of land twice on different principles.

Q.—Government ten years ago let this land for Rs. 200 which was very nearly the full rent and I paid a few rupees at auction. There is a clause in my lease under which I shall have that land at that rent subject to revision every 30 years. Ten years have expired, and the land has gone up considerably in value. Why should I have my lease cancelled before the end of 30 years?

A.—I see that you are proposing that an entirely new tax shall be imposed in addition to ground rent or agricultural rent.

Q.—How can you impose a tax with such manifest inequalities between 4 annas and Rs. 200? I can't see that there is anything in the way of a pledge.

A.—The practical difficulty is this: a piece of land was assigned thirty years ago and occupied as house-site by A without any charge being levied on it. Five years later, he sold it to B. Ten years later, he sold it to C, who sold it to D, E and G. The last man paid for that land practically the same amount of money that the new assignee 'X' would pay for it to-day. However G still pays no ground rent where X—instead of paying something like the price paid by G—would pay an insignificant purchase price and the difference between this insignificant price and the price paid by G would be converted into the fixed recurring annual charge which Government now calls "ground rent".

Q.—I admit that difficulty: do you see any other?

A.—There may be: speaking off-hand, I don't see any.

The President. Q.—Suppose you levy an entirely new tax, couldn't you limit it to the existing ground rent until the expiry of the existing settlement? Two pieces of land paying 4 annas and Rs. 200 are identical in value. You levy a tax at so much per cent of the capital value.

A.—That amounts to Rs. 1-4-0 in the first case and Rs. 201 in the other.

Q.—You wipe out both, but you would not impose the extra rupee in the case of the ground rent man until the expiry of the present lease, when it is liable to revision?

A.—It is possible to do that: the real trouble about ground rent is this: We are treating that piece of land which is going to be newly assigned as our property which we are going to sell. If we sell it outright it will be a simple matter; but instead of selling it outright we are going to convert the amount we expect to realise into a regular annual charge of ground rent. It is a practice which I personally have never been able to understand. This ground rent practice produces some extraordinary inequalities.

The President (to Mr. Holdsworth). Q.—You were Settlement Officer of the Tanjore revisional settlement?

A.—Yes, for some time. Now, I am doing the Kistna settlement.

Q.—Mr. Holdsworth, will you tell us how you arrive at the classification of soil, etc. You say that land revenue varies from a small fraction of the economic rent to a figure which may approach the economic rent. That is a very severe criticism upon the settlement.

A.—True, we cannot help it, because we are confined to certain food grains. Well when we classify land, we classify according to its constituents, and, as far as possible, we judge according to the materials at our disposal. We judge it as well as we can. Various sorts of lands are arranged and grouped together, placing in the same class those with the same outturn of the standard food grain. We take the food grains that are the chief produce in a village: in the delta it is paddy, in upland villages usually *cholam*. We ascertain the proportion under the total acreage in each group. Commutation prices are worked out on the price of the selected grain. From the commutation prices we work out a table of figures of the selected grain and the assessment in the original settlement is supposed to be approximate to half the net produce. We have to take into consideration in calculating also the cultivation expenses which vary according to each soil.

Having got the net profits in that way, half of that is approximately taken as land revenue. But if the man did not cultivate *cholam* but cotton, as in Coimbatore, which may be a staple crop, it is possible in a district, where the economic rent of land depends of course upon the crop that it actually produces in the general course of events, that the land assessment would probably be a very small proportion of the cotton economic rent, but might approximate more to the economic rent in the case of *cholam*.

Q.—So the theory breaks down?

A.—In particular instances it is bound to break down.

Sir Percy Thompson. Q.—May I ask one question on the assumption that it does not break down at all? Supposing no cotton is grown and only *cholam* and paddy are grown. Supposing having classified the land and having got the real net assets, you come to write your report, you find in one village it necessitates a land revenue assessment, 50 per cent in excess of the last settlement, what happens next? Could you tell us what did exactly happen in Tanjore?

A.—Government knocked off 5½ lakhs of rupees out of the total increase. I am speaking now of things what happened over thirty years ago. There has been no original settlement since then.

Q.—Assuming that you have got your 50 per cent increase exactly in proportion of the economic rent, when the Government said cut it down by so much percentage, but don't cut down equally, if it was in proportion to the economic rent before it must have to be ceased so.

A.—Quite so. Thirty years ago the Settlement Officer did classify the land for the first time. Previously the thing had been done on a complicated system. It is very difficult to explain. Then he classified the land for the first time, they fixed the rates and the total excess came to something like 20 lakhs. Government said it was too much and it was reduced by 5 lakhs. They left the discretion to the Settlement Officer. The Settlement Officer thought that some parts were perhaps being treated too harshly, and he reduced the classification of certain irrigation sources. Some of the sources which had been put as first class he thought might be put down as second. Dealing with irrigation sources and dealing with villages according to their relation to other villages and communications, etc., in this way, he carried out the orders. The 5 lakhs of rupees were not knocked off arbitrarily.

The President. Q.—When the thirty years expired?

A.—There was another resettlement.

Q.—Then it was found that a good many classifications were not sound?

A.—No, Sir. The classification was sound. But Mr. Jackson thought there were still some villages which were on the border line between second and third classes which were harshly dealt with. He therefore revised it with reference to the state of affairs in general. In some of those parts the villages were liable to be heavily flooded. He did not revise the classification generally.

Q.—His revision would have resulted in an increase of how many lakhs?

A.—25 per cent was the increase on the first and 18¾ per cent on the lower *tharams.*

Q.—What was the Government order?

A.—His revision was to increase the assessment by 25 lakhs. Government maintained it until they introduced the principle that the increase should not exceed 18¾ per cent where it is based on prices. They made it retrospective so that in Tanjore people got the benefit, with the result that in the first six *tharams* it was from 25 to 18¾ per cent and in the lower *tharams* it remained the same. There was no real mathematical justification for not raising all the *tharams* equally. It was simply a matter of feeling, that the owners of poorer land were not doing so well. As far as the figures go, there is no reason why all the *tharams* should not bear exactly the same increase.

Q.—In other words, it was wrong only to increase by 18¾ per cent, and you ought to increase it by 25 per cent?

A.—Yes.

Q.—It was sound as between the lands in two different localities?

A.—Yes.

Q.—If you say what was increased to 18¾ per cent ought to have been increased to 25 per cent, was it not the fact, when you reduced the things which you did not put at 25 per cent but at 18¾ per cent, you established an inequality between the two sets of land?

A.—Yes.

Q.—In the net result have you any idea as to the relation the land revenue would bear to the net assets or the rental value?

A.—As a general average, before it was increased it was about one-sixth; after it was increased to 18¾ per cent it will be about one-fifth.

Q.—In other districts that you know of?

A.—In Kistna it is slightly better. Land revenue, the existing land revenue, represents as far as I can gather in ordinary paddy land one-seventh of the lease value that an absentee landlord can get for his land.

Dr. Paranjpye Q.—He can get seven times the land revenue?

Q.—Yes, I think the cultivator, the man who cultivates his own land, will be able to make ten times the land revenue. It is certain that an increase of 18¾ per cent will be justified.

Q.—You will be prepared to raise it by more than 18¾ per cent?

A.—Yes.

Q.—That will not bring it to the Tanjore level?

A.—The rates are the same as in Tanjore. I should say that the burden of assessment is less in the Kistna and Godavari deltas than in Tanjore.

The President. Q.—What is the use of resettling it at all then? Why not simply increase by 18¾ per cent everywhere?

A.—There is no reason at all really.

Sir Percy Thompson. Q.—Why should then Government spend such large sums of money on settlements? Why not increase by 18¾ per cent straight away?

A.—There are other reasons for it. When we do a settlement we also overhaul the whole system of administration. An opportunity is taken to set right the revenue accounts. The settlement process proper is quite cheap.

Q.—Granting that, the settlement reports I have read are generally very complicated and contain a lot of technicalities. Why should you not make a paragraph run as follows: "Land revenue here is one-seventh of the economic rent; therefore in a resettlement which takes half the net assets the enhancement would be somewhere about 150 per cent, but we are precluded from enhancing it by more than 18¾ per cent, therefore we have increased the existing assessment by 18¾ per cent"?

A.—The whole of the resettlement depends upon how much the price of grain has gone up—the commutation price as we call it.

Q.—You need not go to the district at all for that. You can find it from the gazettes.

A.—The first thing is to show your figures for grain. You have got 120 per cent enhancement in commutation prices.

Q.—Then it is misleading.

A.—It may be misleading, but we have got to do that.

The President. Q.—Supposing you have had a clean slate; a very experienced Settlement Officer like Diwan Bahadur V. K. Ramanujachari suggests that the settlement should ascertain the capital value of the land. He suggests that the legislature should impose a rate from time to time on the capital value of the land. Would it be as easy to arrive at that as it is to carry out the present process?

A.—With regard to the capital value of land or rental value of land, the neglect or industry of the owner makes a tremendous amount of difference. Only the other day I was talking to a *karnam* in a village asking how much land he had. Only three years ago, he bought 4 acres for Rs. 1,500 which is very cheap. It had been neglected by an absentee Brahmin. After three years he sold 1 acre and 25 cents for the whole amount he paid for the three acres of land originally.

Q.—You don't make any allowance for those factors in the present settlement?

A.—Because we go on the constitutents of the soil.

Q.—Could you not ascertain the unimproved capital value fairly accurately?

A.—Very roughly. There is a great difference in capital value according to what the land grows: e.g., sugar-cane. Personally I think capital value would be fairer if you get the approximate capital value. If we give anything like a reasonable approximation to the capital value, we could not certainly get it accurately for every field. Nowadays there is one point. In the old days, theoretically, to some extent practically, land revenue did represent half net assets, and one had to be careful. Nowadays little inequalities do not matter.

Q.—Diwan Bahadur V. K. Ramanujachari suggests that in the case of Tanjore 1 per cent on the capital value would practically represent your resettlement land revenue.

A.—I do not think so. Sometimes it would be only half the present rate. In Kistna I think it would represent about half per cent.

Sir Percy Thompson. Q.—Suppose you fix 1 per cent on the capital value of the land, that brings in, roughly speaking, the same amount of land revenue as you are getting to-day. If you take the capital value which is, say, 100, you may take its annual value roughly speaking at 6 per cent; it may be 5 or 6, but take it roughly to be 6 per cent. Would that be correct?

A.—Rs. 80 on land worth Rs. 1,500 an acre; that is a rate prevalent in the Kistna and Godavari deltas.

Q.—Now you get your net assets as, roughly speaking, equal to the annual value. You say at the resettlement the annual value is going up enormously, but we will only take 18¾ per cent. Does not the capital valuation arrangement give you exactly the same difficulty? It would mean that if you take up a fixed proportion of the capital value you would still be up against the difficulty of taking a 150 per cent enhancement.

A.—We should not score from that point of view by taking the capital value.

Mr. Hall. A.—A ryot would not prefer a tax on capital value. If you maintain the 18¾ per cent limitation, a ryot would certainly prefer the present system.

The President. Q.—Do you propose to continue the inequalities between the districts in perpetuity?

Mr. Hall. A.—It seems to me that this 18¾ per cent is going to destroy the whole system upon which the land revenue system is founded.

Sir Percy Thompson.—It is the same evil. They will not enhance the land revenue.

The President. Q.—I do not think the same objection would apply because at present nobody knows what proportion land revenue bears to the net assets. By capital valuation you get a system that works towards equality?

A.—I do not think it is a very defective system. I mean the present one.

Q.—Do you think that capital valuation is practicable? That is really a point I should like to have cleared up by a Settlement Officer and a Collector.

A.—As a Settlement Officer speaking for the advanced districts of Kistna and Tanjore where registered sale deeds are common, it is practicable, but with regard to the backward districts like Bellary and Anantapur, I cannot say.

Q.—Would it be more or less difficult than your present settlement?

A.—I should be inclined to say less difficult, because it will be rather more accurate. In backward districts I cannot say that.

Mr. Hall. A.—I think there will be considerable difficulty in arriving at a true capital value of the land in a place like Malabar. The lands there are subject to encumbrances and sub-encumbrances. You never really know what is being transferred.

Sir Percy Thompson. Q.—What is the capital value which is represented by the sales to-day? It is the value of the land subject to the existing land revenue, is it not?

A.—Yes.

Q.—Which you are going to abolish and adopt a system of taxation of capital value? Is not that capital value immediately vitiated?

A.—I do not think the land revenue has any effect on the capital value. In Tanjore, Government asked me to ascertain whether Government orders fixing the resettlement at an enhancement of 25 per cent had had any effect on the value of land during the two years since the orders

were promulgated. We collected statistics for the period up to the time of the Government order, we ascertained the value of land from the Registrar's offices, and then took the land value subsequent to the fixing of the rate by Government. There was a slight fall in the value of the land, but it was due to a slight fall in the price of paddy.

Q.—That is exactly the result which you would expect. They would know there is going to be a resettlement and that the land revenue will be enhanced by 25 per cent and they would discount it.

A.—I do not think they worry very much about it.

Rai Sahib G. VENKATARANGA RAO, Secretary, Madras Landholders' Association, was next examined.

Written memorandum of the Madras Landholders' Association.

Q. 38.—*Income-tax on agricultural incomes.*—The Madras Landholders' Association is strongly of opinion that the exemption of incomes derived from agriculture from taxation under Act II of 1886 is deliberate, and its removal would virtually amount to taxing the same income twice over. The object of this Act was to attain a fair balance of taxation between the agriculturists and non-agriculturists and to distribute the public burdens equitably between them. It was taken for granted throughout the discussion in connection with the Act, that the agriculturists and landed proprietors were already contributing their due share to the public exchequer in the shape of land tax.

Whatever may be the views of theorists on the question whether land revenue is a tax or rent, it is undeniable that in effect it is a tax on agricultural incomes. As Baden Powell puts it "it operates as a tax on agricultural incomes—a contribution to the State out of the profits of land cultivation, just as the income-tax is a contribution out of the proceeds of other industries and occupations". (Land Revenue in British India, page 49.)

Land revenue under the ryotwari system is a graduated rate per acre of each kind of soil and liable to revision at stated intervals with reference to fluctuations in prices. As a provision thus exists for taxing the profits of ryotwari proprietors at every resettlement, it cannot be said that Government has in any way sacrificed the public revenue by exempting the agricultural incomes of such proprietors from income-tax. It is therefore unjust and opposed to principle to remove the exemption so far as the income derived from ryotwari land is concerned.

The case against the imposition of income-tax on the income derived from zamindari land rests on a much stronger foundation. The zamindaris in this Presidency have been constituted under Registration XXV of 1802 which was framed upon Regulation I of 1793 of the Bengal Code. The necessity for this enactment arose from the confused and unsettled state in which the assessment of the land had been left by the former Governments. It is described in the preamble that, according to the practice of the Asiatic Governments, the assessment of the land revenue had fluctuated without any principles for the determination of the amount, and without any security to the zamindars or other persons for the continuance of a moderate land tax; that, on the contrary, frequent enquiries had been instituted by the ruling power, whether Hindu, or Muhammadan, for the purpose of augmenting the assessment that it had been customary to regulate such augmentations by the enquiries or opinions of local officers, and that it had been usual for the Government to deprive the zamindars and to appoint persons on its own behalf to the management of the zamindaris, thereby reserving to the ruling power the implied right, and the actual exercise of the proprietary possession of all lands whatever. The object of the Regulation was to remove the causes of such uncertainty of tenure and insecurity of property, and "to grant to zamindars, their heirs, and successors a permanent property in their land, in all time to come, and to fix forever a moderate assessment of public revenue on such

lands, the amount of which shall never be liable to be increased under any circumstances". The Government thus came under an obligation not to raise the *jama* or as it is sometimes called the *peshkash*, fixed at the permanent settlement in respect of the lands then granted. Under these circumstances, the Government could not impose income-tax upon the income from lands in respect of which the *jama* or *peshkash* is payable without in fact, if not in name, increasing the amount of such *jama* or *peshkash* and thus committing a breach of the obligation undertaken at the time of the permanent settlement. This view of the moral obligation which rests upon the Government of respecting the pledges given to the zamindars at the time of the permanent settlement is borne out by the following utterance of Sir James Stephen in one of his admirable speeches in the Legislative Council:—

"Those to whom we succeed, and whose policy laid the foundations of the power which we possess, deliberately gave to a large and influential class of the population over which we exercise that power, a pledge on the faith of which relations have grown up which modify the whole framework of society. No one is more strongly impressed than I with the importance of scrupulously maintaining the pledges given at the period of the permanent settlement." (Speech in the Legislative Council, April 6th, 1871.)

It has often been said in justification of the proposal to subject the income from zamindari lands to income-tax that such income has grown enormously since the time of the permanent settlement and that its contribution to the public exchequer in the shape of *jama* or *peshkash* is almost negligible when compared with contributions from similar incomes derived from other sources. While granting without admitting that this is so, the Association submits in reply that such a contingency was contemplated by the framers of the permanent settlement and that in fixing the *jama* or *peshkash* the future increase in the resources of the zamindaris were taken into consideration. At the time of the permanent settlement of Bengal, Lord Cornwallis in fact declared in a proclamation which he issued "that the proprietors of land sensible of the benefits conferred upon them by the public assessment being fixed forever" would "exert themselves in the cultivation of their lands under the certainty that they will enjoy exclusively the fruits of their good management and industry and that no demand will ever be made upon them or their heirs or successors by the present or any future Government for an augmentation of the public assessment in consequence of the improvement of their respective estates".

The claim of the zamindars for exemption from income-tax in respect of their agricultural incomes is opposed in certain quarters on the ground that they acquiesced in the levy of such a tax in the year 1860, and in the imposition of certain cesses over and above land revenue later on. It may be pointed out in reply to this argument that the income-tax was introduced in 1860 as a temporary source of revenue in order to meet the financial dislocation caused by the Mutiny and that the landed classes acquiesced in it to signify their loyalty to the Government and their readiness to undergo sacrifices on its behalf. As a matter of fact, the Board of Revenue at Madras at the time earnestly pressed on the Government the injustice of imposing this tax in respect of income from lands held on the ryotwari principle. They said that "the tax will virtually be an enhancement of the land tax", that "it is foolish to plead that the ryot is like the tenant farmer of England paying only a rent for his land" that "the Government occupies the joint position of landlord and State", that "the ryots pay what can only be called a combination of rent for the land and tax to the State" and that "to impose an income-tax on the profits of land held on this tenure is clearly to tax a second time, and in a peculiarly vexatious manner, land which experience shows is generally too highly taxed already". "The ryots", the Board further observed, "will indubitably regard it as a breach of faith. They have been repeatedly assured by the Home and Local Governments that they may do what they please with their lands, and enjoy the full benefit of any improvements made by their own means, provided they pay the regulated assessment. On this assurance they have acted, invested capital largely in the improvement of their lands in the full confidence that the pledge

would be respected". "They cannot", the Board continued, "help regarding this fresh tax on their profits from these lands as a breach of the pledge voluntarily given, and their confidence in the faith of Government cannot but be shaken. Unrepresented in the Government and unable to influence the imperial legislature, they will also see the frail tenure, on which their rights depend; they will apprehend that if necessity—a plea, the correctness of which they can have no means of testing—can only be urged, the income-tax may be indefinitely prolonged, its rates enhanced, its incidence extended". Future reductions of assessment and other concessions will be regarded as dictated by interested motives and preliminary to future taxation and that confidence in the moderation of Government which it has taken years to secure will be seriously shaken.

The zamindars of Bengal were at first determined to object to the income-tax as an infringement of their rights, but they soon gave up the point and accepted the advice and example of the greatest of their body. The Rajah of Burdwan in a remarkable letter to the Legislative Council announced that "he would set an example to his fellows of submission to income-tax because it was levied after the great Mutiny of 1857". It is hardly fair that a patriotic act like this should be turned against the zamindars as a reason for setting aside the plain terms of the permanent settlement.

So far as the cesses are concerned, they were first imposed in Bengal in 1870 in the teeth of strenuous opposition of the zamindars of that province by the casting vote of the President of the Secretary of State's Council, and against the decided opinion of the majority in the Council, having intimate acquaintance with the conditions of this country. Sir Erskine Perry wrote:

"I have reluctantly come to the conclusion, after many struggles and attempts to draw fine distinctions in support of a different view, that the language and acts of Lord Cornwallis and of the members of his day, were so distinct, solemn and unambiguous that it would be a direct violation of British faith to impose special taxes in the manner proposed.

"In 1854, Lord Dalhousie, a man of no weak will, was most desirous to impose a local tax in Bengal for the maintenance of an improved police; but after reading Sir Barnes Peacock's masterly exposition of the pledges which Government had entered into in 1791-93, the great proconsul was compelled to accede to the soundness of the Chief Justice's argument and most reluctantly abandoned his projects.

"Here then we have the plain language of Government, the *contemporanea exposita* of its framers, the unanimous conviction of the people and the declared consequence of the State in the justice of the popular interpretation during a period of 80 years. What is the answer attempted to this state of facts?

"The Government of India allege that the language of the permanent settlement itself in section VII of Lord Cornwallis' proclamation is large enough to enable them to impose the taxes in question; but the argument on close examination proves so unsound that the Secretary of State abandons it.

"Two other arguments have been brought forward first, that the imposition of the income-tax proves that taxes additional to what the zamindars pay as land assessment may be imposed over most parts of India in addition to the land assessment.

"As to the income-tax it cannot be considered sound logic, when the meaning of particular pledges is in question to argue that because a despotic Government has on one occasion without consulting the people construed the pledges in its own sense, that act of the Government is a fair proof that their construction is right and just.

"With respect to cesses additional to land revenue having been imposed in other parts of India, I am compelled to observe that in my opinion the Secretary of State has not interpreted the facts correctly and that the exposition of the Lieutenant Governor of Bengal is the true one". (Sir Erskine Perry's dissent, dated May 14, 1870.)

Sir Frederic Currie admitted the unsatisfactory state of Indian Finance, "but it cannot justify our laying a special tax on the zamindars of Bengal to do which Sir Erskine Perry's paper shows conclusively would

be a breach of faith and the violation of the positive statutory engagement made with zamindars at the permanent settlement". (Sir Frederic Currie's dissent, dated May 4, 1870.)

Sir Thoby Prinsep wrote as follows:—

"I have never felt so deeply grieved and disappointed in a decision given in opposition to my expressed opinion as when it was determined by a casting vote to approve and forward the despatch referred to at the head of this paper, for I regard the principle laid down in the despatch to be erroneous, while the policy inaugurated and the measures sanctioned will, if attempted to be carried out, alienate the entire population of India from the Government of India and shake the confidence hitherto felt universally in its honesty and good faith.

"The Court of Directors, the Imperial Government and Parliament, were all parties to the resolution to fix the Government demand upon the land of the Provinces then held by the East India Company in Bengal in perpetuity.

"The traditions of this period are now forgotten, and new ideas are about to be introduced into the financial administration of India, which I should be sorry to think are likely to be attributed to the change of Government which took place twelve years ago. The right of unlimited and uncontrolled taxation is always a dangerous one to assert, and who could have expected that this policy should be advocated and such arbitrary powers claimed by a Queen's Government". (H. T. Prinsep's minute of dissent, dated May 19, 1870.)

Sir Henry Montgomery said: "A Government should not, in my opinion, voluntarily place itself in a position laying it open to be charged with a breach of faith". (Sir Montgomery's minute of dissent, dated May 18, 1870.)

Ross Mangles wrote as follows: "It appears to me to be very doubtful as to what length the Government of India may feel themselves justified in going under the sanction of the despatch just sent. They may, I fear, be encouraged to take steps which may lay them justly open to a charge of breach of solemn promises. Unguarded action may destroy in a moment the credit which the British Government has won by its honorable persistence, for a period little short of a century in the unbroken observance of its pledges; such a price would be too dear to pay for even an object so laudable as the education of the masses. We have no standing ground in India, except brute force, if we ever forfeit our character for truth". (Ross Mangle's dissent, dated May 25, 1870.)

Sir Frederic Halliday, himself a past Lieutenant-Governor of Bengal, among other things, wrote as follows:—

"The zamindars remonstrated strongly—they pleaded the distinct and solemn promises of the Permanent Settlement of 1792, when Lord Cornwallis had exhausted the resources of language to assure them that the rate then assessed on their lands was 'irrevocably fixed forever' and that they should in all future time be free from 'any further demand for rent, tribute, or any arbitrary exaction whatever'. These great national pledges, they urged, had been scrupulously adhered to in many financial difficulties and under all changes of Government from Cornwallis to Canning and could not now be broken without a deliberate abandonment of plighted faith.

"All the official persons of the province who were consulted, supported those remonstrances, and the Lieutenant-Governor of Bengal transmitted them to the Government of India and enforced them with a powerful and, I think, unanswerable argument. But the Government of India was unmoved, and declared in reply that it was determined to persevere in its determination". (Sir Frederic Halliday's minute of dissent, dated May 25, 1870.)

The landholders ultimately reconciled themselves to the levy on the assurance conveyed in the despatch of the Secretary of State sanctioning the cesses that they would be imposed for the construction, maintenance and improvement of such works as would benefit the cess-payers 'immediately', 'directly' and 'palpably'.

Q. 137. *Duties on inheritance or succession.*—Whatever may be the case in regard to western countries, so far as this country is concerned, the proposal to levy a tax on property changing hands at death is beset with

peculiar difficulties and highly impracticable. It was seriously discussed by eminent administrators in India in the sixties of the last century and was given up on account of its unsuitability to conditions obtaining in this country (vide Finances and Public Works in India by Sir John Strachey and Lieut.-General Richard Strachey, pp. 366-368.)

The chief difficulty lies in the fact that the majority of the people of this country are Hindus governed by the Mitakshara system of Hindu Law, under which sons and grandsons acquire by birth an interest in the ancestral property of their father and grandfather and become members of a joint family and on the death of a member of a joint family the remaining members acquire by what is called survivorship as distinguished by succession the interest of the deceased member. Under this system there is no such thing as succession to property so called. Members of a joint Hindu family do not succeed each other and their rights arise by birth. No individual member of such a family has any interest which he can transmit at his death to his heirs. In such circumstances, no question of death duty on his estate can at all arise, for he leaves none at his death.

If, in spite of the above considerations, it is maintained that each member of a joint Hindu family is in fact entitled to a specific share of ascertainable value in the joint family property which he can claim to be allotted to him if a partition were made, and that the survivors who derive benefit by his death may justly be required, as in the case of ordinary succession, to pay a percentage on its value towards the public revenue, it may be pointed out that under the Hindu family system there is as much chance of decrease of one's interest in the joint family by the birth of fresh members as there is of increase by death and that if duty be levied on increase by reason of deaths, it stands to reason that compensation should be given for decrease by reason of births. This is hardly practicable, though it should follow logically from the position taken up by the upholders of the death duty.

If every deceased person's share is to be the subject of death duty, it will involve the levy of the duty on the share of each child that might be born into the family and die soon after the birth. With infant marriages and the consequent heavy toll of infant mortality prevalent in this country, there will be frequent occasions for property changing hands by survivorship, necessitating the levy of duty at frequent intervals. This must cause no small pain and vexation to the family and may even result in the whole property being swallowed up by the duty.

To get this difficulty, it is proposed to exempt the estate of sons and grandsons dying in the lifetime of their fathers and grandfathers from liability to the payment of the duty and to make the levy only on the death of the head of the family. This proposal is liable to the objection that the property is not in any sense that of the head of the family. He is only a sharer like other members. There is no justification in principle for levying a duty when a member who happens to be the head of the family dies and not when other members of the coparcenary die. The fundamental principle of taxation is that it should fall equally on persons similarly situated. Further, under this proposal a father succeeding to his son's share is not liable, whereas a son succeeding to a father's share is liable. It is hard to see why there should be any discrimination between the two cases. Again, suppose there is a family consisting of a father and three sons and one of them dies. It is far from being clear what the advocates of death duty would urge in such a case. The benefit of the son's share accrues not only to the father but also to the other sons, i.e., the brothers of the deceased. If the scheme is to exempt all cases where a father succeeds by survivorship to the son's share, what is to happen when the benefit accrues not only to the father but to the collaterals of the deceased as well. There is no conceivable reason why a distinction should be drawn between a case where the benefit accrues solely to the collaterals and a case where the benefit accrues to the collaterals along with the father.

There is also the difficulty that the net benefit accruing to the survivors is not easy to fix. Debts contracted by the deceased really for family necessity may be challenged to be separate debts, and as such not binding on the estate, and the debts contracted by the surviving members may be claimed as family debts. There is no presumption that debts contracted even by a managing member are for family necessity. There is further the pious obligation on the part of the son to discharge the debts, which

are not illegal or immoral, of the father to the extent of the share which he gets in the ancestral estate. Any enactment imposing a death duty on property accruing by survivorship will also have to take note of the obligation on the part of the survivor or survivors to maintain the widow, the mother, the unmarried daughters of the deceased and other members whom the deceased was under an obligation to maintain, and also of the obligation cast upon the survivor or survivors to defray the marriage expenses of the maiden daughters of the deceased, etc., and to perform his funeral ceremonies. All these liabilities have to be taken into account and reduced to some money value in working out the duty and this is by no means a light task.

There is one other point which deserves consideration. If survivorship is to be treated as succession for purposes of death duty, is the Hindu Law principle that when a member of a joint family dies and his collateral or collaterals succeed by survivorship, the family property is not liable for the separate debts of the deceased to be maintained in its integrity or not? Is survivorship to be treated as succession proper for one purpose and not for another? There is no system of law in which devolution of property is not treated as succession for the purpose of the deceased's own debts and treated as such for the purpose of the State intervening and claiming a duty thereon.

Such a tax has further to be safeguarded by provisions against evasion by collusive sales, gifts or settlements in contemplation of death or otherwise, which cannot but be harassing.

It is almost impossible in this country to get at the personal property of the deceased for the purpose of succession duty. It seldom takes the form of public investments, but is often laid out in cash, bullion and precious stones. These latter in most cases pass in domestic secrecy into the hands of persons other than those from whom the duty has to be collected.

As Sir Henry Maine said long ago, "No approach to fairness could be made in the assessment of such a tax, unless the procedure were made to the last degree inquisitorial".

In the opinion of the Association, no form of direct taxation would be mre unpopular, more opposed to the Hindu sentiments or more difficult to assess.

Mr. Venkataranga Rao gave oral evidence as follows :—

The President. Q.—You have been Secretary of the Madras Landholders' Association for 20 years?

A.—Yes.

Sir Percy Thompson. Q.—I think in your statement you are trying to prove the proposition that, if you tax agricultural income to income-tax, you are taxing it twice over?

A.—Yes.

Q.—Do you make that as a universal statement, whether it is land permanently settled, or whether it is land subject to temporary settlement?

A.—In the case of both.

Q.—Take, for instance, a piece of temporarily-settled land; say, let for Rs. 100, and we suppose for the sake of argument that the land revenue paid on it is Rs. 40, so that the holder gets an income from it of Rs. 60. Let us call that holder A: he sells it to B; what price does B pay? Does B pay a price based on his getting an income of Rs. 100 or a price based on his getting an income of Rs. 60?

A.—I think Rs. 60.

Q.—In other words, what he has done is to amortize the amount which he pays by way of land revenue.

A.—Yes.

Q.—He just draws the Rs. 60 which he expected to get when he bought the property and suffers no tax at all. He paid a price applicable to Rs. 60, and if he does get an income of Rs. 60, he is not taxed at all.

A.—He is taxed at the end of the period: if it is temporarily-settled land, he will be taxed at the end of 30 years.

Q.—You would only treat as a tax that part of the land revenue which is an increase over and above the land revenue which he was paying at the time of purchase?

A.—I do not see any distinction whether we call it a tax or land revenue. He is paying a certain contribution to Government, and that contribution is fixed for a certain period.

Q.—He is not bearing the burden of that tax.

A.—Not immediately, but at the end of the period he has to pay.

Q.—The Rs. 40 is part of his liability under the purchase price. He would have had to pay it in any case. Supposing at the next settlement land revenue is put up from Rs. 40 to Rs. 50, your argument is that the additional Rs. 10 can be called a tax, but do you claim that the Rs. 40 which he paid, and knew he had to pay, can be called a tax when he has discharged the liability?

A.—I do not think it can be called a tax.

Q.—Let us now suppose that the land is permanently settled, so that at the next settlement the land revenue of Rs. 40 cannot be increased and it is not a tax. If it is not a tax, can you tell me why the other Rs. 60 which the man draws and which, according to your own admission, has paid no tax, should be exempted from full income-tax?

A.—Because he was given an assurance that it won't be taxed.

Q.—The contract was that that assessment would not be raised, but that cannot be construed into a pledge that, when an annual tax is imposed on all incomes, this fixed assessment on land would exempt him from the operation of the general tax.

A.—If that is so, what is the meaning of the permanent settlement?

Q.—This is what section 4 of Regulation XXV of 1802 says:

"The Government having reserved to itself the entire exercise of its discretion in continuing or abolishing, temporarily or permanently, the articles of revenue included according to the custom and practice of the country, under the several heads of salt and saltpetre, of the sayar, or duties by sea or land, of the abkari, or tax on the sale of spirituous liquors and intoxicating drugs, of the excise on articles of consumption, of all taxes personal and professional, as well as those derived from markets, fairs or bazaars, of lakhiraj lands (or lands exempt from the payment of public revenue), and of all other lands paying only favourable quitrents, the permanent assessment of the land-tax shall be made exclusively of the said articles now recited."

Thus they expressly reserve the power to withdraw or increase or do what they like with regard to all personal taxation.

A.—I do not agree. I don't think that is the meaning of the section. The zamindars were levying these taxes at the time; and the Regulation says "hereafter you should not levy those taxes". The Regulation prohibits the zamindars from levying these taxes which before the permanent settlement they were levying. Levying of taxes is a sovereign power and they have been deprived of that sovereign power. That is the meaning of that section. As a matter of fact, *motarpha* was levied by some zamindars even after the settlement; but in 1870 or so Government prohibited them from levying this tax and paid them a compensation. I know one of the zamindars in this Presidency got a compensation of about 2 lakhs.

Q.—Section 1 says: "Wherefore, the British Government, impressed with a deep sense of the injuries arising to the State and to its subjects from the operation of such principles, has resolved to remove from its administration so fruitful a source of uncertainty and disquietude, to grant to zamindars and other landholders, their heirs and successors, a permanent property in their land in all time to come, and to fix for ever a moderate assessment of public revenue on such lands, the amount of which shall never be liable to be increased under any circumstances". Then section 2 says: "In conformity to these principles, an assessment shall be fixed on all lands liable to pay revenue to the Government; and, *in consequence of such assessment*, the proprietary right of the soil shall become vested in the zamindars or other proprietors of land, and in their heirs and lawful successors for ever".

Now, how can you say that this fixed land revenue was otherwise than consideration for the proprietary right granted to the zamindars?

A.—At the time there were three classes of zamindars. One class was the ancient zamindars who were exercising quasi-sovereign rights prior to the settlement. In the case of those zamindars this Regulation simply confirmed those rights. It did not give them any fresh rights.

Dr. Hyder. Q.—When this compensation for the *moturpha* was paid, was it paid to the zamindar who exercised the sovereign rights or to all classes of zamindars?

A.—Only to the zamindars who were exercising some sovereign rights prior to the permanent settlement. But the regulation places all the zamindars on the same footing. There is only one regulation for the several classes of zamindars.

Sir Percy Thompson. Q.—The section that I have read out does not represent the true facts?

A.—No; it does not.

Q.—Then why was the fact not represented at that time?

A.—That section has been interpreted by the Privy Council in many cases, as saying that Government did not confer any fresh rights but only confirmed the previous or pre-existing rights.

The President. Q.—May I read to you the further passage in Sir James Stephen's speech which you have quoted? It reads thus: "A great public act like the Permanent Settlement is not to be interpreted, and can never have been meant to be interpreted merely by reference to the terms of the document in which it is contained. Its meaning must be collected from a consideration of the circumstances under which, and of the objects for which, it was made; in considering what is, and what is not, consistent with its terms, we must look at the gradual changes which have occurred in the condition of the country since it was enacted. This is the only way in which it is possible to understand fully transactions of this kind; and it is peculiarly necessary in the case of a transaction, which, however important, neither is nor professes to be, a complete and exhaustive statement of the relations between the Government and its subjects. The permanent settlement regulates only one branch of one part of those relations, and it must be interpreted by reference to others."

A.—Quite so. It is in relation to the revenue from land that the zamindar claimed exemption from tax.

Q.—It is one branch of one part.

A.—I do not know that. Of course, they cannot claim exemption from all taxes simply because they pay the land revenue. But in respect of incomes from their estates, they say they should not be taxed again because they are already taxed, and that tax is permanent, and should not be increased or decreased under any circumstances. That is the meaning of the section.

Sir Percy Thompson. Q.—In respect of land revenue, it shall not be increased. But that a distinct pledge with regard to the land revenue can relieve land from all taxes of a general nature which may hereafter be imposed, is a very big claim.

A.—Any tax which imposes a fresh liability on the zamindar in respect of his *land* is certainly a breach of the permanent settlement.

Q.—It is rather strong to contend that when the Government agree to a permanent settlement, whatever the needs of the Government might be afterwards, they are precluded from getting anything more from the lands, even when the new tax is imposed on the lands in common with other forms of income.

A.—That is how this Regulation has been interpreted very recently by the Privy Council in the Urlam case. The passage I have quoted in my memorandum is from their judgment.

The President. Q.—If you interpret it as barring one personal tax, does it not bar also other taxes?

A.—No, it does not; suppose a zamindar trades and makes a profit.

Q.—Supposing a zamindar has nothing but the income from his land. You say that the whole of that income is free from all other taxation. Applying the same logic that income, even when it is used in other ways, cannot be taxed.

A.—No. Suppose a zamindar opens a big business and makes a profit. He is liable to be taxed on the profits.

Sir Percy Thompson. Q.—As the President says, suppose the zamindar has no income except from his lands. If your claim is that by virtue of that the Government is precluded from taking anything more than the land revenue fixed under the permanent settlement, that would equally debar the Government from taking any customs duty, for example, in respect of the articles which he purchases out of that income.

A.—I do not think so.

Dr. Hyder.—That would be a tax on the expenditure of the zamindar and I do not think that the zamindars contend that their expenditure should not be taxed. According to the plain meaning of the terms, the land tax is on the income.

The President. Q.—It says that it is fixed—a moderate assessment of public revenue in respect of the land. There is no reference to the income from the land.

A.—How is that public revenue fixed? The public revenue is fixed with reference to the income from the lands. That is how the *peshkash* was fixed. The system adopted was this: 50 per cent of the gross income was set apart for the cultivating ryot. Out of the other 50 per cent Government took two-thirds and left one-third to the zamindar. In the case of some estates 90 per cent was taken by the Government and only 10 per cent was left to the zamindar. This public revenue bore at that time a definite relation to the income from land.

Sir Percy Thompson. Q.—The point is that it is a tax on the land but not on the personal income of the holder of the land.

A.—What is the meaning of 'tax on the land'? The land does not pay any tax. I get income from the land and I pay tax on that income. It is the person that gets the income and pays the tax. There is also another aspect of this question which I want to press upon this Committee. This permanent settlement was not purely a fiscal arrangement. It was based upon political considerations also. The Government may have, no doubt, sacrificed some revenue, but that loss is more than compensated by the loyalty and attachment of these big landlords, which the Government has secured. It was thought to be of a much greater importance to secure the loyalty of these zamindars than to get full money value from them. That aspect of the question is almost forgotten in this controversy.

The President. Q.—I do not think it is forgotten. But we are looking at the matter from the taxation aspect and not from the political aspect.

A.—But you should not isolate it altogether. If you try to understand the permanent settlement, you must take all these factors into consideration.

Q.—Let us not enter into the political aspect.

A.—The amount paid was very large in some cases. If the income was 12 lakhs, the zamindar paid about 3,50,000 in the shape of *peshkash*, and about 1,50,000 in the shape of road cess. This comes to about 5 lakhs. Thus he is paying 5 lakhs out of 12 lakhs towards the needs of the State, whether you call it a tax, or rent or revenue. That means 40 and odd per cent of his income. Can you say that he is not contributing enough towards the needs of the State? So, why should you tax him again? That is one aspect of the question. Now the zamindars were paying these taxes long before other communities were paying any. It was only in 1850 that the income-tax or license tax was introduced, because the Government thought it was unfair to levy taxes only on one class of people. The zamindars, on the other hand, have been paying from the very beginning. This factor also should be taken into account. Even as it is, the zamindars contribute a fair share towards the expenditure of the State.

Q.—You refer us to a remarkable letter by the then Raja of Burdwan where he says "He would set an example to his fellows of submission to income-tax, because it was levied after the Great Mutiny of 1857". We have not been able to pick up the reference. Could you give us more of the contents of the letter?

A.—This is referred to in the Minute of Sir F. Halliday, extracted in the Report of the Bihar Landowners' Association for the year 1905.

Dr. Paranjpye. Q.—Do you think that your quotation from Cornwallis is fully justified? Do you think that his remark will apply to the absentee landlords also, who have sold away their rights and have divested themselves of the rights?

A.—When the estates were sold, the purchasers must have paid for all the privileges guaranteed to their predecessors in title.

The Maharajadhiraja Bahadur of Burdwan. Q.—Dr. Paranjpye perhaps says that not knowing why these permanent tenures were created. Permanent tenures were created because not only the land revenue was heavy but because of the difficulty of the time of payment fixed by the Government. Almost every zamindar defaulted, and in consequence, the Patni Law in Bengal was enacted in order to help the zamindar to collect the land revenue and pay according to the *kists*. Therefore, it was not a question of the zamindar's desire to go away from the permanent rights and become an absentee landlord. That is why these permanent tenures were created, that is, to give facilities to the landlords to collect their land revenue. That is the history of the Patni Law in Bengal. But Dr. Paranjpye classifies them with a big zamindar who had given away his rights completely—a thing which perhaps exists in Madras.

A.—In this Presidency I do not think we have such kind of tenures.

Q.—The preamble to the Patni Law clearly states the point.

Dr. Paranjpye. Q.—Are there any absentee landlords in Madras?

A.—Not many; they live mostly on their estates.

Q.—With regard to the death duties, do you consider that the imposition of death duties will be an infringement of the permanent settlement?

A.—I do not think so.

Q.—You distinguish between survivorship and succession. It may be a very good point for the lawyers.

A.—It is not I that make the distinction. It is the Hindu Law that makes it.

Q.—Does it matter very much to a person whether he gets the estate by survivorship or succession?

A.—Yes; it does.

Q.—How?

A.—Suppose there is a family consisting of three brothers, A, B and C. If A dies, his property accrues to B and C by survivorship. But they are not liable to pay A's debts. They get his property but they are free from all liability with regard to his debts. But if they get it by succession they are bound to pay. So that there is a great difference.

Q.—The debts are binding on the estate.

A.—No; they are not. It does not apply in regard to coparceners.

Q.—If he had incurred the debts for the benefit of the estate, then it will have to be paid.

A.—Even then, it is not so.

The President. Q.—He gets the share and does not pay the debts?

A.—If you treat that as succession for purposes of levying a tax, you must also treat it as a succession for purposes of paying off his debts. But you don't do it. As things stand the Hindu Law does not allow the property being made liable for the debts of the deceased. If the property passes to the son, then he is bound to pay.

Q.—To say that they are exempt from paying the debts is not an argument against levying the duties.

A.—There must be some principle. You must follow either the principle of succession or the principle of survivorship.

Dr. Paranjpye. Q.—But ordinary common sense says that when a father dies, his son gets the father's right in the family property.

A.—But you must remodel Hindu Law before you think of imposing a duty.

The President. Q.—Don't you think it is fair to impose the tax on all communities irrespective of their personal laws?

A.—But personal laws must be respected.

Dr. Paranjpye. Q.—You may have your laws of succession as you like. But you should be prepared to pay to the State whatever duties it chooses to impose in common with other communities.

A.—Till recently the legislature acted on the principle that personal laws must be respected. Take the Indian Succession Act. It is restricted only to certain communities. This shows that the personal law of other communities was respected.

The President. Q.—Can a community escape a tax by adopting a peculiar personal law?

A.—They do not adopt it. They are born with it. Every community has got its own personal law which must be respected.

Dr. Paranjpye. Q.—Would it not be possible for a new community to arise, binding together a thousand people and adopting such personal laws that would make them free of any tax?

A.—I do not know that. It is a hypothetical case. I do not know if such a case has ever arisen in this country.

Dr. Hyder. Q.—How much would be realized from the zamindars if death duties were imposed?

A.—It all depends upon the taxable minimum you are going to fix and the rate.

Dr. Paranjpye. Q.—Suppose Rs. 5,000 is the minimum limit and you charge at the rate of 5 per cent.

A.—You will get a lot of money.

The President. Q.—Your other objections to the death duties are chiefly administrative?

A.—Yes.

Dr. Paranjpye. Q.—The fundamental principle of taxation is that it should be equal on all classes. Now, however, in the application of this principle you find a Hindu is treated entirely differently from a Christian. If the latter dies his estate will have to pay a probate duty; if a Hindu dies his estate will have to pay no tax at all.

A.—You must understand my remark with reference to its context.

Q.—You say that the fundamental principle of taxation is that it should apply equally to all people; don't you think that they should be treated so, so far as probate duties are concerned?

A.—You should apply this principle subject to the limitations of personal law. Suppose a father dies and the son succeeds, his son has to pay a duty, but if the son dies and the father succeeds he need not pay.

Q.—If the scheme is to exempt in all cases, whether the father succeeds by survivorship or the son, what is the point? What do you mean by collateral of the deceased?

A.—It means brothers and uncles.

Q.—If the father is living, if a man has got father and brothers, it won't go to any of the collaterals?

A.—Suppose a son dies, the father succeeds, he gets the property. He does not pay any tax. That is the question I was discussing.

Q.—I would like to know the benefit accrues to the collateral.

A.—Suppose it is a joint family consisting of A, B and C. A's son dies, his share accrues to the whole of the joint family.

Q.—Potentially it belongs to the father. The uncle's share will not be affected at all by the death of his brother's son. If there are two brothers one has got a son and the son dies, then the second brother's share in the family is not affected at all?

A.—It does increase.

Q.—How?

A.—Suppose the son is alive, there is the possibility of a partition.

Q.—Supposing A and B are two brothers, and A has his son C. C dies; B's share will not be affected, so it won't affect the collaterals.

A.—Perhaps so.

Q.—You say that "debts contracted by the deceased really for family necessity may be challenged to be separate debts and as such not binding on the estate and the debts contracted by the surviving members may be claimed as family debts." You will find that for debts an abatement is always given.

A.—Yes, provided they are family debts, but suppose they are not proved to be family debts. Before you levy the tax, you must decide the question whether debts are contracted for family purposes.

Q.—If the debt is found to be not for the family, an arrangement will have to be made.

A.—It is an administrative difficulty.

Q.—Such difficulties are always there, even in England.

A.—I do not think such difficulties arise in England at all. Suppose a man surrenders his property during his lifetime.

Q.—Gifts made within three years of death will be taken into consideration.

A.—Why should you introduce that principle? Suppose I give away my property within two years of death, why should you treat me differently from a person who did likewise five years before death?

Q.—I think people will make gifts just before death just to avoid duty.

A.—I do not think that applies to this country. I know recently one leading lawyer made a settlement of the whole of his property during his lifetime. It was a *bona fide* transaction. In such a case what will you do?

Q.—It is the question of time limit there.

A.—Why should you bring in a time limit here? He never expected to die within one year of the settlement.

Q.—You must make a hard and fast rule.

A.—Simply because you want some money. Suppose a Hindu becomes a *sanyasi*, there is a civil death in his case, how would you charge death duty?

Q.—No death duty is charged on such cases.

A.—Why, his property passes to his son. I therefore say these are all difficulties that do not occur in other countries.

Q.—Such practical difficulties occur in all countries wherever death duties have been imposed and they have been got over.

A.—Most of the difficulties do not arise under English Law at all. They are peculiar to Hindu Law. My whole point is that I am objecting to the principle of this taxation. You have no right to treat survivorship as succession.

28th May 1925.

BANGALORE.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. C. H. MASTERMAN, I.C.S., Collector of Salt Revenue, Madras, was examined.

Written memorandum of Mr. Masterman.

Q. 51.—I accept the statement of the general policy to be followed in respect of the taxation of salt.

Taxes are imposed to meet the expenditure incurred by Government for the benefit of all classes of the people under its rule. It is, therefore, reasonable that every class of the population, however poor, should contribute something however little to the public revenues. Salt is an article of universal consumption. The tax on salt is, therefore, an admirable method of ensuring that every member of the community pays something towards the public exchequer. On the other hand, no particular member of the community uses a very large quantity of salt nor does any particular class use an undue quantity as compared with other classes, so that the tax does not press too heavily on any particular individual and is not unfairly oppressive on any particular class. Again, the salt tax is an indirect tax and as such is a tax which can be collected from the poorest classes, from whom it is almost impossible to collect direct taxes, in a form which is not irritating and causes little protest. Salt is a necessity and consequently the consumption of it cannot be curtailed to any great extent by an increase of the tax. The demand is inelastic and is not affected by the rate of tax. This is an advantage from the point of view of the budget maker and is not disadvantageous from the point of view of the tax-payer so long as the article taxed, as is the case with salt, is not used in very large quantities by any individual tax-payer and so long as the tax is limited, as it is in the case of the salt tax, to a figure which is not large enough to affect consumption and cause deprivation. Ideally a tax on luxuries is no doubt to be preferred to a tax on necessaries but in a country like India where a very large proportion of the population do not use luxuries, it becomes necessary to tax necessaries in order that a large proportion of the population may not escape taxation altogether.

The objections usually raised against the salt tax are—(1) That it is oppressive in its action upon the lowest class of the population because it raises the price of salt and consequently deprives the people of the use of an article which is essential to their well-being. There is, however, no proof that the poorest classes are deprived of the full quantity of salt they want owing to the tax and it does not appear that they pay unduly for it. In the Madras Presidency with the salt tax at Rs. 1-4-0 the incidence of taxation per head of population per annum is only 5 annas 1.8 pies and the average retail price of salt throughout the Presidency is only 1 anna 9 pies Madras measure of 120 tolas. It cannot, therefore, be said that the is oppressive or that the price of salt is excessive. It is significant that there are very few cases of illicit manufacture of salt or of attempted

theft of salt from factories before duty has been paid on it, which indicates that the price of duty-paid salt is so low that there is no inducement to break the law in order to get it cheaper. Further it by no means follows that the abolition of the tax would mean a decrease in the retail price. The Government, while imposing the tax, take steps in various ways to see that the retail price is not unduly high. The abolition of the tax and the consequent withdrawal of all Government control would probably mean more profit for the middlemen engaged in the salt trade with no benefit to the consumers.

(2) That it is a bar to scientific farming. Although India is an agricultural country there is little scientific farming on a large scale. The main reason would seem to be, not that the salt tax prevents the extensive use of salt manures (actually in Madras very little salt is used as manure), but that the land is in the hands of millions of small holders. There will perhaps be a case against the salt tax on this score when scientific farming has made some headway, but there are many more formidable obstacles than the salt tax to be got over first and in India it is certainly not true that the salt tax is one of the main obstacles to scientific farming on a large scale.

(3) That it hampers industries. Some industries use salt, such as soap and glass industries, but it is recognised that salt required for legitimate industrial purposes should be issued duty-free. All industries which require salt do get it duty-free and there have been no complaints as to the conditions under which it is issued.

None of the above objections are very cogent. I consider, therefore, that the salt tax is an admirable form of indirect taxation. It is a tax of general incidence reaching the poorest classes but is not oppressive in its action on even the very poorest. It yields a considerable revenue and is comparatively easy to collect.

Q. 52.—I accept the statement. A tax of general incidence must be a tax on an article of food which is consumed by all classes of the community. Even a tax on land is not a tax of general incidence since every one does not own land. Salt is the only article of food used universally by all classes, rich and poor, and the tax is not oppressive because the quantity used by each individual is small.

Other possible alternatives, though neither are so universally used as salt, are betel leaves and tobacco. A tax on either of these would be very difficult to collect. In a large agricultural land like India it would be a very difficult and expensive task to prevent the illicit cultivation of either betel or tobacco, whereas in the nature of things, salt can only be obtained in a small strip of land along the coast which it is comparatively easy to 'protect'.

Q. 53.—The incidence of the salt tax in the Madras Presidency may be taken to be, with the salt tax at Rs. 1-4-0, As. 4 4.8 pies. The figure is calculated by dividing the amount of duty collected on salt which leaves the factories by the population. The incidence in 1922-23 shows a higher figure—As. 5 1.8 pies—because owing to speculation by the merchants very much more salt left the factories than was consumed during the year. Annas 4 4.8 pies may be said to be the normal. This cannot be said to be high though in making comparisons with other countries the average income per head of population or in other words the comparative capacity to pay taxes must be taken into consideration. Even, however, allowing that the average income per head of population in India is comparatively low, the rate of the salt tax in India is not high.

Q. 54.—If salt is to be taxed, the primary duty of Government is to collect the tax imposed upon it, whatever form that tax may take. Since however in taxing salt, Government are taxing a necessity of life, Government have a secondary duty to perform, which is almost as important as the duty to collect the tax. Government is under an obligation to see that the people get a reasonably pure article and that they do not pay an unduly high price for it. Clearly one method of achieving this double object is to make salt a Government monopoly, in which case Government would be entirely responsible for manufacturing good salt and for selling it to the public at a cheap rate. Any profit which the Government might make on the sales would then be placed on the credit side of the public accounts and would be in lieu of an excise duty.

Apart from the practical difficulty of interfering with many well-established private interests at this stage, there appear to me to be some very serious objections to a Government monopoly. The whole object of a monopoly would be to ensure that the retail price was reasonably low. To achieve this, Government would have to make itself responsible not only for the manufacture of salt and its wholesale disposal, but also for retail sales, otherwise there would be no guarantee against profiteering in retail sales and either Government would make no profit or the retail price to the public would not be controlled. A very large Government staff would have to be maintained not only for manufacture but also to control the whole process of distribution from the factory to the consumer. This would be very expensive and it is very doubtful indeed if Government could ensure a low retail price and at the same time get any profit. I consider too that the Government monopoly of a necessity of life is objectionable on political grounds.

If, on the other hand, a wholesale excise system is resorted to and Government make themselves responsible for the collection of the excise duty and nothing else, allowing the licensee to make what salt he likes and to sell it where and at what prices he likes, there is a great danger of the consumer being forced to pay a high price for a commodity upon which Government have imposed a high duty and for which consequently Government are morally obliged to see that the price is not unduly high.

It, therefore, appears that the only practical solution is a *via media*—an excise system under which both the quality of the salt made and the price at which it reaches the consumer is in some way controlled by the authority which imposes the excise duty. This is the system now in force in Madras, under which Government control to some extent the quality of the salt manufactured by excise licensees and by the manufacture and sale of Government salt seek to control the price of excise salt. The question remains as to whether it is desirable to extend this control by increasing Government stocks or whether it is now safe to slacken the control to some extent by curtailing Government manufacture, in which latter case the further question arises as to whether some means, for ensuring a low retail price, other than that of accumulating Government stocks and putting them on the market when necessary, might not be devised or whether the competition of licensees is not itself a sufficient safeguard to ensure that salt reaches the consumer at a low price.

If a monopoly system is to continue side by side with an excise system, any extension of the monopoly system at the expense of the excise is *prima facie* uneconomical, because it is only advisable to put monopoly salt on the market when excise prices show a tendency to rise. If there is no tendency to rise, it is obviously undesirable to hamper free competition, which itself regulates prices, by selling monopoly salt which cannot as a rule be made so cheaply as excise salt and has consequently to be sold at a loss. Thus, large stocks of monopoly salt are accumulated which it is not desirable to sell in normal years. Eventually they become unsaleable and have to be destroyed. The whole process is most uneconomical. The only question is as to whether it is worth while to incur this loss in order to gain the advantage of having large Government stocks available on any occasion when they may be wanted. I do not think that it is. In normal years when salt is plentiful, there are now, I think, sufficient factories and sufficient competing licensees to ensure that the price of salt does not rise too high. It is only in bad years either owing to bad seasonal conditions or owing to a national crisis, such as the late War, that the necessity for large monopoly stocks would arise. I consider that with the further extension of salt pans over widely separated parts of the coast the danger of a bad year in all parts has been minimised and that the occurrence of a national catastrophe cannot be legislated for. While not recommending the abolition of monopoly manufacture altogether, I do not consider that there is a case for the extension of the system and I consider that the uneconomical accumulation of large Government stocks is too high a price to pay for a possible safeguard in a crisis, the occurrence of which I believe to be doubtful.

It follows from what has been said above that I would recommend the gradual extension of the excise system at the expense of the monopoly even though the salt sold by Government is already in the Madras Presidency very much less than half of the total amount sold. The figures for 1923-24 are—"Salt sold by Government", 2,758,054 maunds, "Salt sold by excise

licensees", 8,563,401 maunds. Generally speaking, I would recommend the abolition of monopoly pans and their conversion into excise wherever there is excise salt in the same locality. This would leave as monopoly the Ennore factories where there is no excise salt to compete with the monopoly salt and such small monopoly factories as Karambalam where the salt is made for a special purpose, in this case for supply to the French Government. I consider it advisable to retain Ennore as monopoly because it is desirable to have one fairly large centre of Government stock for emergencies. The conversion of other existing monopoly pans into excise does not necessarily imply the entire loss of control by Government over prices. One of the great defects of the monopoly system is that Government have to accumulate stocks every year whether they want them or not. In converting existing monopoly blocks into excise I would lease out the right to manufacture under what is known as the modified excise system with a clause whereby Government have a lien on a certain percentage of the salt manufactured which, if it is wanted, the licensees are bound to sell to Government at a fixed price. By this system it is unnecessary to accumulate large Government stocks, whereas, if necessity arises, Government can always have at its command a stock of salt if it becomes necessary in any particular place to lower the price of excise salt, on an occasion for instance, where, owing to the failure of one of two licensees, one particular licensee is left in the position of a monopolist.

The gradual conversion of monopoly into excise on the lines indicated above would not in the Madras Presidency constitute any great revolution. There are now only 6,046 acres of monopoly pans of which 3,523 are at Ennore. Of the balance of 2,523 acres I would retain 485 acres for special supplies which leaves a balance of 2,038 acres. The 90 acres of monopoly pans at Karasa can no longer be worked as the factory has to be closed owing to the harbour works and Government have approved of the conversion of the 162 acres of monopoly pans at Kanuparti into modified excise. There remain 1,786 acres for conversion of which 667 acres are the monopoly pans at Ganjam which have not been worked for the last four years.

While recommending the gradual conversion of monopoly pans into excise, I would not relax the control already exercised by Government over the production of a pure salt both in excise and monopoly factories. Government is responsible for seeing that the public gets a pure article and I consider that this object can be attained by a thorough system of laboratory tests and of brine tests in the factories and the strict refusal to store or let out of the factory any salt which does not pass these tests. I consider that this can be done without undue interference with an excise licensee's method of manufacture and the manufacture of that kind of salt, so long as it is pure, which is best suited to meet the demand of the market which it supplies.

Q. 55.—As already stated, I consider that it is one of the primary duties of Government in imposing a duty on salt to see at the same time that the article reaches the consumer at a reasonably low price. I have also stated in answer to Q. 54 that I believe that the competition to sell their salt between different licensees is one of the most effective means to prevent a high retail price. If then by large scale manufacture is meant the manufacture of salt in a very few selected areas by a very small number of capitalist licensees, small enough in numbers to be able to combine and create a monopoly, then I should certainly consider that this state of affairs would be a proper ground for the extension of the Government monopoly, because the element of competition to regulate prices would be absent and Government would be obliged to step in to break up a private monopoly. The cost of manufacture might be cheaper and the quality of the article made might be better but there would be no guarantee that the combine might not profiteer and instead of reducing retail prices actually raise them.

A less extreme form of large scale manufacture would not however, I consider, be a good ground for extending the Government monopoly. So long as the number of licensees in each factory and the number of factories are sufficient to ensure competition, I see no necessity for the extension of the Government monopoly on account of a substitution of large scale manufacture to this extent for the production by a very large number of petty holdings. Large scale manufacture to this extent would in all probability result in a reduction of the cost of manufacture and so long as the element of competition between the manufacturers is not eliminated

The practice of retail sale by measure undoubtedly encourages the manufacture of light salt, but it has been proved that just as pure a light salt can be made as heavy salt and that light salt is not intrinsically worse than heavy salt irrespective of the method by which it is sold to the consumer. I do not, therefore, consider that the first proposition can be substantiated.

With regard to the second proposition, it is perfectly true that a measure of light salt contains less sodium chloride than the same unit of heavy salt, the reason being that in light salt the grains do not lie so close together so that the consumer pays for more space between the grains than he would if he were buying heavy salt where the grains lie closer together. It does not, however, follow that the consumer for the same amount of money would get more sodium chloride if the salt which is sold to him were doled out to him by weight than if it were doled out by measure. The retail trader must make his profit somewhere. As matters now stand, he buys by weight and sells by measure and he makes his profit by selling a light salt by measure which he has bought by weight. It is at least arguable that if he was forced to sell by weight he would make the same profit in another way by charging more for a unit of weight than the amount for which he bought that unit, that his profit would be the same in either case and the amount expended by the consumer would actually buy the same amount of sodium chloride in either case. It comes to this, that, when the consumer buys light salt by measure, he pays for the retail trader's profit by not getting quite so much sodium chloride as the trader bought for the sum which the consumer pays; when the consumer buys by weight, he pays for the retail trader's profit by expending on a unit of salt a little more money than the money which the trader paid to buy that same unit of salt. It is, in fact, light salt which regulates the price of heavy salt and there is nothing objectionable in this state of affairs so long as it is admitted that there is nothing objectionable in light salt *per se*.

It has been argued that, because the retail trader likes to make his profit by selling light salt, he forces the consumer to consume light salt whether he wants or not. There seems to be no real proof of the truth of this statement. If the consumer generally wanted heavy salt, he could have it, but in order that the retail trader might get his legitimate profit he would have to pay more for it though he would get more for his money. It seems to be true therefore that retail sale by measure encourages the sale of light salt, but it is not true that light salt is itself necessarily bad salt or that the consumer, owing to the system of retail sale by measure, is forced to buy the sort of salt which he does not want.

The advantages of substituting sale by weight for sale by measure are certainly not self-evident and there are certain practical objections to doing so. The majority of buyers in the bazar buy in very small quantities—a pie's worth at a time. The bazar man could not weigh out such small quantities as this. He would not have the time to adjust his scales and weigh out a pie's worth of salt to each of his consumers on demand. Nor would the buyer like him to do so. He likes to see what he is buying and would certainly prefer to see a measureful given to him for his money where he can actually see if he gets full measure than to have his salt weighed in scales of which he has no means of knowing whether the weights are correct or whether he is being cheated by manipulation of the scales. I am convinced that the sale of salt by weight in the bazars would not be popular with the ordinary small buyer and I believe that the retail seller would have more scope for cheating the consumer than he has now. Another point worthy of consideration in this connection is that in wet weather salt weighs very much more than in dry weather. Thus if the standard of a fair price is to be taken as the price for a certain weight in dry weather, the public will be cheated in wet weather.

Q. 59.—It follows from what I have said in answer to Q. 54 that I am not in favour of opening Government depots. Generally speaking, Government interference in distribution is, I consider, undesirable. It is true that the opening of Government depots might have the effect of cheapening the price of salt for consumers in the interior districts. It is also true that I consider it to be incumbent upon Government to see that the public gets its salt at a reasonable price. On the other hand, the primary duty of Government is to collect as much revenue as possible from the sale of salt, always keeping in mind that the price to the consumer must not be unduly high. I do not see that any obligation is laid upon

Government to make the price of salt the same in the interior as near the factories at the expense of the public revenues (for that is what the establishment of Government depots amounts to) so long as the price in the interior is not unduly high, which I do not think that it is. Consumers in the interior must expect, and do expect, to pay rather more for their salt than those living near the coast. The position is generally equalised by the difficulty of dwellers near the coast of getting other commodities as cheaply. Competition generally insures that the salt merchant does not profiteer justifying a high price on the score of cost of transport. Recently serious breaches on the west coast lines prevented the import of Bombay salt to Coimbatore. Stocks began to get low and the retail price of the salt rose. The situation was almost immediately relieved by the transport of excise salt to Coimbatore from Adirampatnam the licensees of that factory being only too glad to find a market. If that had not happened the price of salt at Coimbatore could have been regulated by sending Government salt from the Madras depot. In either case the retail price in an interior district was (or could have been) regulated by a measure which did not affect the revenue as the establishment of depots does.

In normal times, therefore, I see no justification for the establishment of Government depots with a view to reduce retail prices in the interior at the expense of the Government revenue. In a crisis such as the War, the establishment of such depots may become necessary but I consider it to be uneconomical and unjustifiable to legislate for the occurrence of such an eventuality.

Q. 60.—Generally speaking it is doubtful if European methods of denaturation would be effective in India because the Indian poor would probably eat salt which would be considered quite uneatable in Europe if they could get it cheaply. The main objection, however, to employing French methods of denaturation in India is the probable cost of the processes specified.

Q. 169.—As the separation of the combined Salt and Abkari Departments took effect only from last April, it is early to dogmatise on the result of the separation. As far as can be judged, the separation has resulted rather in an increase of efficiency than otherwise so far as the Salt Department is concerned. The administration of a salt factory is more efficient now that there is always one responsible officer at the factory whose work is not interrupted as hitherto by calls to leave the factory on Abkari duties.

It is probable that the salt establishment will cost less than the one-third share debited to Central in the combined department. The actuals for the first four months after the separation were Rs. 4,27,996 as compared with Rs. 4,46,774 being one-third of the actuals for the corresponding four months of 1923-24. There is thus a decrease of Rs. 18,778 in spite of the fact that an unusual amount was spent in the early months of the separation on travelling allowance owing to the number of transfers necessitated and in spite of the fact that some Excise Officers drew their pay at Salt Treasuries in March before proceeding to their new excise stations.

It seems probable that a combination with Customs would not conduce to the efficiency either of the Salt or of the customs department and I consider a combination with Income-tax impossible, the income-tax department being a growing one for which a separate provincial head seems necessary.

Note on the question of light salt, sale by measure, sifting, etc., by Mr. Masterman.

I. The wholesale merchant in order to have one maund of salt ready for sale spends the following amounts:—

	Rs.	A.	P.
Cost price (cost of manufacture)	0	4	0
Duty	1	4	0
Gunnies, transport, etc.	0	8	0
Total ...	2	0	0

This 1 maund of salt, if it is moderately light, will contain 25 measures.

The retailer sells 1 measure for Re. 0-1-6.

From 25 measures, he will get Rs. 2-5-6.

Middlemen's profits are therefore Re. 0-5-6.

N.B.—These profits have to be divided between the wholesale merchant and the retailer.

(2) If the salt is to be sold for inland the transport charges will increase and consequently the retail price will be higher.

II. If the 1 maund of salt is *exceptionally* light, it may contain 30 measures.

The wholesale merchant still has to spend Rs. 2 to get this maund.

The retailer still sells 1 measure for Re. 0-1-6.

From the sale of 30 measures he will get Rs. 2-13-0.

Middlemen's profits are therefore Re. 0-13-0.

Now, very much more salt containing only 25 measures is sold than salt containing 30 measures. Consequently, the average middlemen's profit on the salt sold is less than $\frac{13\text{-}5\text{-}6}{2}$ annas. It may perhaps be put down at 8 annas. Now supposing this 1 maund of salt was sold in the bazar by weight instead of by measure. The consumer must still pay for the amount expended by the wholesale merchant in the first instance *plus* middlemen's profits.

For 1 maund of salt he will therefore pay Rs. 2-8-0.

Thus in the first case he should pay for the weight of one measure $\frac{\text{Rs. 2-8-0}}{25} = \text{Re. 0-1-7}\frac{1}{5}$.

In the second case he should pay $\frac{\text{Rs. 2-8-0}}{30} = \text{Re. 0-1-4}$.

Thus, in the first case the consumer gains, owing to the fact that salt is sold to him by measure, while in the second case he loses.

So long as salt is sold by measure in the bazar, the profits of the middlemen are not constant, but differ according to the nature of each particular unit of salt sold. The retailer can afford however to sell salt of average weight cheaply, because he looks for his extra profits in the exceptional cases where he can get exceptionally light salt to sell.

The consumer, on the average, is not subscribing an undue amount towards middlemen's profits. He pays a little less than he should for salt of average weight and a little more than he should for exceptionally light salt. The more frequent, though smaller, gains make up for the greater, but less frequent, losses.

The point is that whether salt is sold by measure or by weight in the bazar, the consumer must pay for the middlemen's profit. If it is sold by measure, the consumer pays for these profits by getting a little *less* sodium chloride than the amount of sodium chloride which the wholesale merchant bought for the *same* amount of money. If it is sold by weight, the consumer pays for these profits by getting the *same* amount of sodium chloride as the wholesale merchant bought, but he (the consumer) pays a little *more* for it.

Sifting.

For 1 maund of salt the wholesale merchant will still pay Rs. 2. Now if he sifts this 1 maund of salt, he may get $\frac{3}{4}$ of a maund of large grained salt containing 30 measures to the maund. That is to say, this $\frac{3}{4}$ of a maund will contain $\frac{3}{4} \times 30 = 22\frac{1}{2}$ measures. The other $\frac{1}{4}$ of a maund will be useless.

The consumer still has to pay for the original cost to the wholesale merchant (Rs. 2) *plus* middlemen's profits (8 annas). If this $22\frac{1}{2}$ measures is sold at Re. 0-1-6 per measure in the bazar it will fetch Rs. 2-1-9, and it is clear that the middlemen won't get their usual profit. It must be sold for at least Re. 0-1-9, in order that the middlemen may make their usual profits. Thus the process of sifting must raise the retail price of salt. The argument is exactly the same if the salt is sifted before it leaves the factory or even before it is stored. Then the wholesale merchant must pay for

¾ of a maund of salt the cost of manufacturing 1 maund. The wholesale merchant will have to pay more for his salt, and the retail price will consequently rise.

In *Madras* sifting is not done, and this does not seem to be due to prohibition of the practice, but simply because it would not pay. If it was done, the result would be something as follows:—

Light salt would be sold in the bazar, but above the ordinary price. The consumer who does not care very much within limits if the salt is light or heavy would find he could get unsifted salt cheaper. Consequently, the demand for sifted salt would get less and less owing to the competition of the sellers of unsifted salt.

In *Bombay* sifting is ordinarily done. I believe that this must raise the retail price of salt above the price at which salt would be sold if it was not sifted. There is, therefore, a case for prohibiting the practice.

The purpose of sifting in Bombay appears to be however the grading of salt in order to suit different markets. If therefore the consumer owing to the practice of sifting gets the sort of salt he likes, then it is equitable that he should pay slightly more for the luxury of getting exactly what he wants and no very strong case remains for prohibiting the practice.

One argument used in favour of prohibiting sifting in Bombay is that it fosters an uneconomic competition of Bombay salt with Madras salt. It is clearly uneconomic that Bombay salt should be sold in Madras when Madras salt can be obtained on the spot. If it is so sold, the consumer is paying for transport charges unnecessarily. I do not believe, however, that it is the process of sifting which enables Bombay salt to compete with Madras salt in Madras. The process of sifting would tend to have the opposite effect as tending to make Bombay salt more expensive. If there is any competition, it must be due to some other factor which makes the cost of manufacture in Bombay less than in Madras. As a matter of fact, however, Bombay salt is *not* competing with Madras salt, except in those districts of the Madras Presidency, which are nearer the Bombay sources of supply than the Madras sources, e.g., the West Coast districts. Here it is economically sound that Bombay salt rather than Madras salt should be sold. No Bombay salt has come into the Madras (city) market in any appreciable quantities since 1916. In that year it came in as the Madras stocks were being depleted to meet the Bengal market, and Madras salt was consequently being sold at a price far above its real value.

Note on supplying Bengal with Madras salt by Mr. Masterman.

There are two main issues with regard to this question—

(1) Is it *possible* for Madras to supply the Bengal market?

(2) If it is possible, is it *desirable*?

(1) Numerous experiments have been conducted in Madras to discover whether it is possible to manufacture in this Presidency a quality of salt suitable for sale in the Bengal market. It is unnecessary in this note to examine these experiments in detail. It is sufficient to state that the experiments have proved that a suitable kind of salt *can* be made in this Presidency, and, allowing for the increased cost of making small quantities, that it can be made as cheaply as the kind of salt ordinarily sold in Madras.

Whether this kind of salt can be made in sufficient quantities to supply the Bengal market is a more doubtful question, and it is a question which raises a number of important issues. Roughly speaking, about 140 lakhs of maunds of salt are consumed in Bengal annually. In order to meet the ordinary Madras demand, allowing for the import of about 18 lakhs of maunds of Bombay salt into the Madras Presidency, for the normal export of Madras salt of about 25 lakhs of maunds mainly to the Central Provinces, to Orissa and to Indian States, and for wastage after manufacture and storage, a quantity of about 120 lakhs of maunds has to be made annually. Now, the season of salt manufacture owing to rains in July is shorter in factories in the north of the Presidency

than it is in those in the south. Consequently, the annual average yield per acre is less in the northern factories than in the southern, and this fact is quite irrespective of the nature of the soil or the quality of the brine supply in particular factories. The average annual yield per acre in the southern factories is about 1,277 maunds; in the northern factories it is about 761 maunds. As, however, the extent of land under salt cultivation is greater in the north than in the south, the average annual yield per acre throughout the Presidency is less than $\frac{1277 + 761}{2}$. It works out at about 950 maunds per acre. Thus, on this basis, in order to supply 120 lakhs of maunds, which is the normal Madras demand, 12,632 acres of land would have to be cultivated. Actuals correspond fairly closely to this estimate. In 1923, about 130 lakhs of maunds were manufactured, and 13,263 acres were actually cultivated. In order, therefore, to supply the total Madras and Bengal demand of 260 lakhs of maunds, 27,370 acres would have to be cultivated. In the existing factories, the cultivable area, as opposed to the cultivated area, after deducting the area occupied by buildings, channels, bunds, patrol paths, etc., is 21,112 acres. Thus, the acreage which could be cultivated, but is not at present cultivated, is 7,849 acres. It must be remembered, however, that a large portion of this area has already been given up, as it has proved unsuitable for various reasons, such as the porous nature of the soil, for the manufacture of salt. Probably, only about half of it, or roughly 4,000 acres, is really suitable for salt manufacture. Thus, in order to supply the Bengal demand as well as to satisfy the ordinary Madras demand, 4,000 acres, already existing within the limits of salt factories, would have to be made ready for salt cultivation, and new factories or extensions to existing factories to the extent of 10,738 acres would have to be made. I consider that this is possible, though it is impossible to speak positively before a thorough examination of all possible areas for salt manufacture along the coast has been examined. It must be remembered too that it would be an expensive business and would take time.

If then a sufficient quantity of that kind of salt which the Bengal consumer will buy can be made in Madras, the next question to be considered is as to whether this salt can be sold in Bengal. Clearly, it could not be sold unless it was cheaper, or at any rate as cheap as imported salt. There seem to be two ways of insuring that the price of Madras salt should be less than that of imported salt: (1) by increasing the price of imported salt, which can only be done by enhancing the duty on imported salt, and (2) by granting concessional rates for the transport by rail and steamer of Madras salt to Calcutta. It is the transport charges which make Madras salt expensive in Bengal as compared with the imported salt which comes in to a very large extent at ballast rates. It would probably be necessary to use both methods in order to insure that Madras salt was sold as cheaply in Bengal as imported salt now is. Once having stopped the import of salt by a high duty, I imagine, though I am not acquainted with conditions in Calcutta, that difficulties as to *golah* accommodation, etc., would disappear with the breaking up of the Calcutta ring of merchants interested in imported salt.

My conclusions with regard to the possibility of Madras supplying the Bengal market with salt are therefore—

(1) It is possible to make in Madras a kind of salt suitable for the Bengal market.

(2) It is possible, though it would take time and cost money, to make a sufficient quantity of this kind of salt.

(3) It is possible to sell this salt in Bengal if the competition of imported salt is stopped by a high import duty.

(4) It is possible to sell this salt as cheaply as imported salt is now sold in Bengal, if transport concessions are given.

(2) If then it is possible, is it also *desirable*?

Three reasons are usually given to show why it is desirable—

(1) It would encourage Indian industries.

(2) The Bengal consumer would get a more *certain* supply, uninterrupted by European crises, such as wars and strikes in the shipping or coal trades.

(3) Calculated over a number of years, the Bengal consumer would get his salt cheaper. He might have to pay a little more for his salt in normal years, but would have to pay far less in abnormal years, when the imported supply is stopped and the price of Indian salt is high, because stocks are low, manufacture in the previous year having been restricted to the normal demand.

On the other hand, from the purely economic or taxation point of view, it is doubtful whether it is desirable that Madras should supply Bengal with salt. As matters are at present, Government get per unit of salt the same revenue from imported salt as from Indian salt, the import duty being equal to the excise duty. If then Madras salt took the place of imported salt in Bengal, Government would get exactly the same revenue from salt as they do now. On the other hand, the expense of collection would be far greater. I have shown that the extent of factories would have to be nearly doubled. Not only would there be the capital expenditure of bringing these factories into being, but there would also be a large recurring expense on the upkeep of the factories and on the guarding establishment. On the other side of the account, there would be only a small saving on what I suppose is a very small customs establishment in Calcutta. From the tax collector's standpoint, then, the proposal that imported salt into Bengal should be stifled by the imposition of a heavy import duty, and that Madras should supply the Bengal demand, is undesirable. Taking a wider view, it must be considered whether the encouragement of 'home' industries would lead to a real increase in the general prosperity of the population, and consequently to an increase in the tax-paying capacity of the people, or whether the encouragement of 'home' industries is not itself so desirable an object as to outweigh the purely economic disadvantage. These are big questions of policy upon which I have neither the materials nor the ability to express an opinion.

I have not mentioned Bombay in this note, because I do not know if it is possible in Bombay to make a kind of salt suitable for the Calcutta market, nor what quantities it would be possible to make. It must also be remembered that it would not be so economical for Bombay to supply the Bengal market as it would be for Madras, because transport from Bombay must necessarily be more expensive than from factories in the Madras Presidency, north of Madras. If, however, Bombay could supply, say, half of the Bengal demand, then the problem of the quantity of supply so far as Madras is concerned becomes easier of solution, but I do not think that the nature of the arguments which I have used is affected.

Mr. Masterman gave oral evidence as follows:—

The President. Q.—You have sent us three notes.

A.—Yes.

Q.—In your statement on page 534 you say that "there is no proof that the poorest classes are deprived of the full quantity of salt they want owing to the tax." Have you any figures to show what is the quantity required for health and what is the average consumption per head in the Presidency?

A.—I can get some figures to show what is supposed to be necessary for each person.

Q.—I think 16 lbs. is the usual estimate of the requisite amount. The Madras consumption, according to your figures, is about 21.

A.—Yes.

Q.—Can you describe the method by which you arrived at that figure?

A.—It cannot be accurate, but the method is to take the amount of salt which goes out of the factory each year and divide it by the population, taking into account roughly only the population which consumes Madras salt (and not Bombay salt) and leaving out of account salt which is exported out of the Presidency, whether by sea or by rail.

Q.—A great deal of salt might go out from the Ganjam factory by road: would that come into account?

A.—Yes, because we find out as nearly as possible how much salt is exported out of the Presidency.

Q.—Could you send us a calculation sheet* showing how the figures for last year are arrived at?

A.—Yes.

Q.—Have you studied the calculation for other provinces?

A.—No.

Q.—There is an amazing variation (from 7 lbs. to 28 lbs.) between provinces in the consumption per head.

A.—In any case, you do not get an accurate consumption per head, because all salt that leaves the factory in one year is not consumed in that year; therefore, there must be considerable inaccuracy.

Q.—But the fact that similar sets of figures show that in one part the consumption is four times that in another suggests that there may be a large illicit supply of salt in other parts.

A.—Yes.

Sir Percy Thompson. Q.—Would not there be a difference in the consumption of salt between rice-eaters and others?

A.—I think people who consume rice use much more salt than those who do not take rice.

The President. Q.—The difference between Bombay and Madras needs some explanation.

A.—I am afraid I cannot remember the figures for Bombay.

Q.—You say: "It is significant that there are very few cases of illicit manufacture of salt or of attempted theft of salt from factories." In the early days of the department, I think there were as many as 10,000 cases.

A.—I believe so.

Q.—It is not purely a matter of the duty alone; it is also a matter of obedience being secured to the fiscal law.

A.—There would be more cases now, if it was really felt that the price of salt was high.

Q.—Are pretty elaborate precautions taken as regards illicit manufacture?

A.—Yes, but even so very little crime is discovered, although there are still opportunities for illicit manufacture in spite of these precautions. I do not think illicit manufacture takes place now.

Q.—For instance, you have a very large preventive staff for patrolling?

A.—Yes, it is fairly large.

Q.—Would you describe the process of guarding? Would it be at all easy for a theft to take place from a factory?

A.—There is a fence all round the factory of prickly pear or barbed wire and the whole factory is patrolled. The circuit of the factory or patrol path is divided into beats and the place is patrolled by night. The patrols are checked by superior officers.

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*Consumption of salt per head of the population in the Madras Presidency and Indian States within its borders during 1923-24.

	Mds.
I. Total salt leaving Madras factories	10,189,027
,, imported	2,269,227
	12,458,254
Deduct salt exported out of the Presidency	1,683,504
	(I) 10,774,750
II. Population of the Madras Presidency including Mysore and Coorg	(II) 48,938,550
Consumption per head	= (I) ÷ (II) = 18·116 lbs.

Q.—How long is the salt which is scraped up allowed to remain on the ridges?

A.—That depends on the concessions given to factories; some are allowed to dry it longer; as a rule, it is taken to the drying ground after remaining on the ridges for two days. The concession of allowing it to remain on the ridges longer is only allowed in those factories where the outer fence is strong. In the old days it was not allowed to remain on the ridges after sunset.

Dr. Hyder. Q.—How many factories have you got to guard in the Presidency? I think there are 65 working.

A.—That is about right.

Sir Percy Thompson. Q.—Have you a number of licensees at these factories?

A.—Yes: at most of them there is a great number of them.

Q.—Is Ennore different from other factories?

A.—It is a monopoly factory.

Q.—In the other type of factory where you have a number of licensees, is it the case that they simply pay the duty and can then sell salt anywhere?

A.—After they pay the duty and get the salt out, they can sell the salt where they like. The merchants are required to declare its destination. From the drying ground, the salt is weighed and stored on a platform.

The President. Q.—Is a licensee allowed to store his salt separately? If a licensee has enough salt to make a whole heap, he gets his own heap: otherwise, it is in joint storage.

A.—That is so.

Sir Percy Thompson. Q.—What do you mean by joint storage?

A.—In one heap there may be salt of more than one licensee. It is known how much salt in this heap belongs to a particular licensee, but when the heap is outturned and the salt sold, each particular licensee will not necessarily be selling the salt scraped from his own pans.

The President. Q.—The platform in which these heaps are stored has an inner fence round it, and there is only one entry through a gate which is guarded.

A.—Yes.

Q.—The stuff is weighed into store and weighed out?

A.—That is so.

Q.—Every difference between weighment in and weighment out has to be accounted for?

A.—Yes.

Sir Percy Thompson. Q.—How is the price which Government pay for salt at Ennore determined?

A.—It is determined by a calculation of the cost of manufacture, and a small profit to the licensee is allowed for.

Q.—Who determines the price? Does the Government say: "You shall manufacture for us at such and such a rate"?

A.—The price is fixed by Government. It is called the *kudivaram.*

Q.—Is it a customary price?

A.—It is a customary price for each monopoly factory lasting from year to year, unless altered.

Sir Percy Thompson. Q.—At Ennore there are Government Inspectors who see that the brine is scraped at the right moment and before it gets too dense.

A.—Yes.

Q.—Do you take similar precautions where there is private manufacture of salt?

A.—Yes.

Q.—You can make a light salt or a heavy salt at will by using different processes?

A.—Yes, within limits. The nature of the soil and the situation of the factory also affect the weight of the salt.

Q.—Is there any difference in taste between the two? Do some people prefer light salt and some heavy salt?

A.—I very much doubt if there is any difference between the two in taste.

Q.—Do people ask for a light salt or a heavy salt?

A.—Not at all. I do not think they mind.

The President. Q.—Don't they say they want red salt or black salt?

A.—Yes, in some parts they like what they call 'black' salt.

Sir Percy Thompson. Q.—In other words, given the colour and the amount of sodium chloride they like, they don't care if it is light or heavy?

A.—No, within limits the ordinary consumer does not care whether the salt is light or heavy.

Q.—What is the point in making light salt?

A.—It is easier for the merchant to make his profit if the salt is light.

Q.—Because it is sold by measure?

A.—Yes, because the merchant gets more measures out of the quantity of salt which he has bought by weight. The consumer would pay exactly the same price for an equal *weight* of heavy salt, but would not be satisfied because he judges by looking at the quantity, and it would appear to him that he was getting less salt for his money.

Q.—I do not see where the merchant gets any advantage. Suppose the consumer would pay 6 annas for heavy salt. If the salt was half as light, he would pay 3 annas for light salt: if he pays more than 3 annas, he is not getting as much salt for his money. If he only pays 3 annas, the merchant will not get anything more out of the light salt than out of the heavy salt.

A.—Quite true, but the consumer would certainly imagine so long as salt is sold to him by measure that he was not getting double the quantity of salt for his 6 annas as he was getting for his 3 annas. The merchant does not really gain by selling light salt. He hopes, however, to make a big profit somewhere by getting particularly light salt, because the retail price cannot change with every small variation in the number of measures to the maund. The consumer does not actually mind within limits whether he has light or heavy salt.

Q.—By doing down the consumer, he is going to make an exceptional profit?

A.—The consumer is 'done down' when the merchant gets exceptionally light salt but the consumer may gain a little (i.e., the merchant may not make his normal profit) when he gets a rather heavier salt than usual, because the retail price cannot be changed for each small variation in weight. Generally speaking, the fact that the merchant is able to get a number of measures out of a certain weight of salt keeps down the price of salt.

Q.—But it won't keep down the price of a given quantity of salt.

The President. Q.—You speak of competition between two Madras factories?

A.—Yes.

Q.—Let us take a case where you have scientific system of grading salt. Suppose you have four grades, containing 48, 54, 60 and 66 measures to the bag, respectively. Suppose also you have a ring which controls the prices in a particular year and sends out emissaries to the market at Bangalore, they find that the heavy salt selling in that market at Rs. 3 a bag gives 54 measures. The ring would at once send down to that market salt of grade 3 which gives 60 measures and sell it at the same price, i.e., Rs. 3.

A.—They will gain a little more than before and the consumer will lose.

Q.—There will be no competition in this case.

A.—That is the fault of the ring. If there had been no ring, a competitor would come and sell heavier salt cheaper. The man with the lighter salt would then have to reduce his price, and forego his extra profit or he would be unable to sell his salt.

Sir Percy Thompson. Q.—We must assume that by selling salt of grade 2 (54 measures), the man is making a fair profit, but when salt of grade 3 (60 measures) is introduced, the merchant makes more profit, because he sells more measures. What is the man with the salt of 54 measures going to do?

A.—He will probably have to sell a little cheaper and make a little less profit, if he is going to compete with the man who sells the salt of 60 measures. The man who makes the profit out of the 60 measures salt is making an undue profit.

Q.—But the man with the 60 measures salt can always undersell the man with the 54 measures salt, assuming that the cost of production is the same.

A.—Yes, on the supposition that he can always be certain of getting the salt with 60 measures and at the same price as the man who has salt with 54 measures. Then in that case salt with 60 measures is the normal salt of the market and the retail price of it will be fixed by the cost of production *plus* the profits of the merchants.

The President. Q.—Push it down to the actual cost *plus* duty. While the man with the salt of 54 measures will be selling at actual cost *plus* the duty, the man with the 60 measures salt is still making a profit?

A.—Yes.

Sir Percy Thompson. Q.—Let us suppose that these additional measures are got by sifting. If you agree that the price is determined by cost of production *plus* normal profit, how in the world can cost of production *plus* normal profit on sifted salt be less than the cost of production *plus* normal profit on non-sifted salt?

A.—Quite so. In the sifted salt, the cost of production is more.

Q.—Therefore, in the long run, the price to the consumer will be more.

A.—Yes, that is to say, the cost of production for the man who hasn't the sifted salt (i.e., 54 measures) will be less: he can afford to make a profit still, but the sixty man, in order to get his profit must charge more, because his cost of production is more.

Q.—Does it necessarily follow that he can undersell? Let us suppose that the difference between 54 and 60 is 6 waste: if they sell at the same price, they make the same profit.

A.—That is true: there is probably very much more waste.

The President. Q.—Normally, the all-round price of salt in any market in which sifted salt is on sale is higher than it need be?

A.—Certainly.

Dr. Hyder. Q.—I find the measures for light salt to be 52 and for heavy salt 42 measures. Obviously, if the price of salt is the same, the man who sells salt of measures 52 gets more money.

A.—Yes, but these are extreme cases. The man with the 42 salt can't afford to sell at the same price as the man with the 52 salt. To get his profit he must charge more. At an enhanced price he will probably be unable to sell his salt and he will be driven out of the market. Ordinarily, however, in a particular market different salts will only differ in weight by two or three measures.

Q.—In the other case, the man will be forced to raise his price: the man who manufactures heavy salt weighing 42 measures does not sift?

A.—I am assuming that neither the 42 nor the 52 salt is sifted. If the 52 salt is sifted and the 42 not sifted, the cost of production of the 52 salt will be more and the merchant cannot afford to undersell the 42 man even though he gets more measures out of his salt.

The President.—Madras has occasionally made spasmodic efforts to sift, but it has never succeeded; in Bombay salt is graded; what the merchant

asks for is salt of grade so and so. In Madras the first thing done when a heap is opened is to test it by measure and see how many measures come to the bag.

Sir Percy Thompson. Q.—Is it not a fact that a particular grade depends on two things:- first of all, the natural lightness or heaviness of the salt in manufacture, and, secondly, the measure of the sieve through which it is sifted?

A.—Yes, but the second process is not done in Madras. It must add to the cost of production and therefore to the retail price of salt.

The President. Q.—In answer to Q. 53 you say: "The incidence of the salt tax in the Madras Presidency may be taken to be, with the salt tax at Rs. 1-4-0, As. 4-4.8 pies. This figure is calculated by dividing the amount of duty collected on salt which leaves the factories by the population."

A.—Yes.

Q.—You say: "Government is under an obligation to see that the people get a reasonably pure article and that they do not pay an unduly high price for it. Clearly, one method of achieving this double object is to make salt a Government monopoly." And you say, "I consider too that the Government monopoly of a necessity of life is objectionable on political grounds." You object to State socialism?

A.—Yes; that is the fundamental objection.

Q.—But do you object to State socialism as exhibited at Sambhar, Kharagoda, etc.?

A.—I do not know about the conditions there. But why I object to it is this: firstly, it will do away with private enterprise and consequently affect the prosperity of the people unfavourably and minimise their general capacity to pay taxes; secondly, it is impracticable. The salt trade is quite a big thing in Madras. I do not think it is practicable now in Madras, because you have got too many vested interests.

Q.—Would you agree that in that half of India where salt is a monopoly, prices are lower and steadier than in the other half?

A.—That assumes that the price of salt in Madras is unduly high and that there are troubles about prices. I have never heard of any complaint in Madras.

Dr. Hyder. Q.—I do not think it is a question of prices; but it is a question of fluctuation in price.

A.—They do not fluctuate. The difference may be as between different places; but fluctuations do not occur from year to year in any one place, unless there is a salt famine at a particular place in which case salt can be brought from other places, when the price of salt under whatever system it is being manufactured and distributed will rise owing to transport charges. Even if it is a monopoly, Government must charge for the transport if it is to run the business economically and not sell the salt below cost of production *plus* transport. Of course, there may be some difference between the sea coast and inland. There will always be this difference; but it will always be the same.

The President. Q.—The high railway freights have a good deal to do with preventing the salt travelling a considerable distance?

A.—Yes.

Q.—Is it not indeed a fact that years ago it was a matter of constant anxiety whether the entry of Bombay salt into Madras would not involve the closing of the factories in Madras?

A.—Yes; but Bombay salt does not now come into Madras except to places on the West Coast which are nearer to Bombay.

Q.—So long as that condition existed, it was a serious question for the Government of India?

A.—Yes.

Q.—You say it is not practicable to introduce monopoly in Madras.

A.—No; not without enormous expense. You have large licensees now who have sunk a large amount of capital for which they have not yet got their return. Most of them hold their pans on a 25 years' lease. You would have to buy them out.

Q.—Nearly all of them are bound to sell you at a fixed price?

A.—No. Less than half of them.

Q.—Does that leave a fair profit?

A.—Yes, it does; but we very seldom demand salt from them at this fixed price.

Q.—If you hardened your heart and enforced it, it is practicable to get control of the whole market.

A.—It might be practicable to get control of less than half the market in this way.

Q.—Could you give us an idea of the system of accounting? At what stage do you first begin to account for the salt?

A.—When it is weighed into store. The Sub-Inspector keeps a note on the drying ground; but that is only rough.

Q.—He keeps a note of the scraping?

A.—Yes, it begins with scraping; and then you come to the weighing of the salt into store.

Q.—When you tally the quantity weighed into store, is any divergence noted?

A.—Yes; if there is a wide divergence. When it is sold out of store, it is also weighed and a certain percentage is check-weighed. When a heap is fully outturned and all the salt in that heap sold, any difference between the weight of the salt sold and the weight when it was taken into store has to be accounted for. An account is kept of how much the difference is and what is called the "wastage statement" is made.

Sir Percy Thompson. Q.—How does the salt waste?

A.—Some of it may be washed away by rain. There will also be a certain amount of water in the salt and if it remains for some time, the water evaporates and the salt loses weight.

Dr. Paranjpye. Q.—Don't you think that too many of these weighings and handlings of salt make the salt much dirtier than it need be?

A.—Yes; it is handled more between Ennore and Madras than in any other factory. But two weighings are quite necessary, that is, weighing into store and weighing when it is sold.

Dr. Hyder. Q.—Could you reduce the cost of manufacturing salt in Madras? First you have got scattered holdings for the manufacture of salt. Now the question is whether your salt cannot find a market in Bengal. Can you say whether there is room for improvement, i.e., in the reduction of the cost of manufacture in Madras?

A.—I think it is possible to manufacture it a little more cheaply. But I doubt whether that will make a very large difference.

Q.—Instead of these 65 factories, could you not have a system of manufacturing on a large scale? Suppose you reduce the number of factories; will you not be able to reduce the cost?

A.—Yes; very slightly.

Sir Percy Thompson. Q.—Is it not the cost of transit that prevents you from sending it to Calcutta, that is, even if your actual cost of manufacture is nil?

A.—Yes; it is the transit charge that makes it so expensive.

Dr. Hyder. Q.—One thing with regard to the import of salt. They do not allow you to land your salt at all. The moment that the Madras salt comes in they reduce the price of the imported salt. So it is not entirely a question of your not being able to put your salt there on account of the heavy transit charges. Apart from the transit charges there is the question of the ring not allowing you to break into the arena.

A.—Yes; I think so.

Q.—You notice the variation in price in Waltair and other stations on the coast of Bengal, that is, with regard to the imported salt? Do you think there is a marked variation in the price of salt at Waltair and at Rajahmundry?

A.—The actual price of salt is higher at Rajahmundry than at Waltair because there is no salt factory at Rajahmundry while there is one at Waltair, Rajahmundry has to pay for transport charges therefore. The difference however is not the cost of transport from Waltair to Rajahmundry, because Rajahmundry salt comes from a nearer factory than Waltair. It is roughly the cost of transport from Rajahmundry to Penuguduru, the nearest factory. The cost of transport from Waltair to Calcutta is of course much more than the cost of transport from Penuguduru to Rajahmundry. The actual price is greater in Calcutta than at Waltair. I think it is about 10 annas a maund there and in Waltair it is 3 annas.

The President. Q.—Would it help you to secure the control of the market, especially in the Ganjam district if you had bonded warehouses?

A.—As a matter of fact, without the bonded warehouses, the Ganjam factories are now reviving. They have got rid of a lot of the old stock.

Q.—Would not the bonded warehouses help them further?

A.—They might.

Dr. Hyder. Q.—You say that the price of salt is 3 annas at Waltair and 10 annas in Calcutta. Have you any idea of the transport charges from Waltair to a town in Bengal?

A.—No; I cannot tell you.

Q.—The difference between the price of salt in Bengal and that in Madras is 7 annas. Do you think that the railway charges would come to 7 annas a maund?

A.—I do not know whether 10 annas is the correct figure; but I think by rail it will cost that, though by sea it may cost a little less.

The President. Q.—You say "It is only advisable to put monopoly salt on the market when the prices of excise salt show a tendency to rise." And you would have no monopoly factories adjacent to excise factories. By the time the prices show a tendency to rise, you may not be able to sell your monopoly salt.

A.—But that is just the time you can sell it, because you can sell it cheaper than excise salt.

Q.—Would it not be simpler to keep monopoly salt steadily on the market at prices which would allow the excise manufacturer a sufficient margin of profit?

A.—Then you would be competing with the excise licensees and interfering unnecessarily with their trade. You would be selling salt at a price which bears no relation to cost of production. Ordinarily, the competition of different excise licensees keeps the price down, and there is no necessity to sell Government salt for this purpose.

Q.—Is there any understanding among those licensees?

A.—No; certainly not.

Sir Percy Thompson. Q.—Do you ever sell monopoly salt at less than the price paid as customs duty?

A.—No. Sometimes in the case of old stock we sell at less than the cost of production. You cannot sell it unless you sell it in competition with the excise licensees.

The President. Q.—You propose a scheme of control by which I understand you will retain a lease for a year, on a proportion of the excise salt. At the end of the year you will have the option to take it over if the prices are high.

A.—The scheme is that Government can *at any time during the year* buy the salt over which they have a lien and sell it. The question as to how much salt if any, Government wish to have a lien over, is decided for each factory at the beginning of the year, the limit being fixed by the terms of the license. At the end of the year if Government have not bought the salt, it is the property of the licensees, and Government decide if they want to have a lien over any of the new salt for the next year.

Q.—If stocks were short and prices were high, would there not be a howl from the excise licensees. Would you not have to give away?

A.—No. I do not think so. This is just the sort of occasion when Government would want to buy. The licensees know this and many have agreed to the condition.

Dr. Paranjpye. Q.—Government will be free to introduce a condition that Government can take it over whenever they like, if you find that they are forming a ring and charging unfair prices to the consumer.

A.—This *is* the condition, but it is limited to the amount which at the beginning of the year Government considered it necessary to have a lien over. I do not think it is necessary to go further, because there is no trace of a ring in Madras.

The President. Q.—That is an outcome of the large cultivation of salt during the War; prior to that the prices were common.

A.—Yes.

Q.—You say that Government ought not to be a profit-maker, but you do not like Government selling at the cost price. Have you studied the Japanese arrangements where they actually abolished the duty but retained the Government monopoly in order to prevent the price becoming too high?

A.—My point is that I do not think Government should depend on trade profits for its revenue. If the duty was abolished Government would lose the revenue, and would have to make it up by profits out of the sale of their salt. The profits would have to be large to make up for the loss of duty.

Q.—Supposing you abolish the duty altogether. Do you think the consumer would benefit by the whole amount of duty?

A.—No, I do not think so.

Sir Percy Thompson. Q.—Why should not the consumer benefit?

A.—Certainly he would get salt cheaper. But I doubt whether he would get it cheaper by the amount of duty. It is already so cheap that the merchant would get part of the benefit.

Q.—Surely the force of competition would do it.

A.—Of course there will be a reduction. I do not think there will be o much reduction that the consumer would get the whole benefit.

Q.—Generally speaking, when you put on a duty, the prices rise by more than the amount of the duty; but when you take off a duty, prices fall by more than its amount.

A.—I do not think this would be the case with salt. Salt is sold so cheaply that to give the poorest consumers the quantity they want at one time would involve at a reduced rate charging them fractions of a pie.

Q.—Duty adds to the cost of production?

A.—Yes. I say prices would necessarily fall, but not so much.

The President. Q.—We come to the question of the supply of salt to Bengal. Do you think that Madras or Bombay could supply the quality required?

A.—Yes.

Q.—The trouble is that you can't get over the transport difficulty.

A.—Yes.

Q.—For that you would impose an import duty?

A.—Yes; because for Madras salt to compete with imported salt you must either reduce the transport charges from Madras to Calcutta or raise the price of imported salt by imposing a high import duty.

Q.—You say that would not affect Bengal, because the market is liable to violent fluctuations and in the long run a steady supply of local salt would be cheaper.

A.—Yes.

Q.—Have you any evidence to support it?

A.—The only evidence is that the price of salt went to a high figure during the War.

Dr. Hyder. Q.—I want to make one fact clear. Foreign salt comes into Calcutta on account of cheapness of freight. Does not that show itself in any reduction in price to the consumer? I understood you to say just now that the price at Waltair was 3 annas and the price in Bengal was 10 annas. Obviously the cheapness of the freight is no benefit to the consumer in Bengal. But it simply enriches the importer.

A.—By cheapness of freight, I mean that the freight of imported salt is cheaper than the freight of Madras salt to Calcutta. As there are no salt factories in Bengal, the Bengal consumer must pay for freight and this means that the price of salt for him must be dearer than salt at a place like Waltair where there is a salt factory. The Bengal consumer pays for cost of production *plus* freight. The Waltair consumer pays only for cost of production.

Q.—Your salt does not get into the Bengal market because of the high freight. Foreign salt gets into Bengal on account of the lowness in freight. It holds the Bengal market, but this cheapness of rates does not really show itself in the reduction of retail price to the Bengal consumer?

A.—It does, because if the salt came from elsewhere the freight would be more and the retail price would be more.

Sir Percy Thompson. Q.—You would expect salt to be expensive in Bengal as it has to import from somewhere?

A.—Yes. Salt sells in Calcutta far less than the Madras price *plus* transport. That would be about 12 annas.

The President. Q.—I think you are talking of quite a different salt. I think there is no doubt that you can get ordinary Madras salt in Calcutta a good deal cheaper than the normal price of the Liverpool salt.

A.—Taking into account the freight you mean?

Q.—Actually you can get it at a very much cheaper price.

A.—I am not sure.

Q.—You can never do anything towards capturing the Bengal market with the salt as at present manufactured in Madras.

A.—No. You will have to manufacture the quality which they want.

Q.—Then you will have to get it accepted by their market.

A.—Yes.

Sir Percy Thompson. Q.—You will have to produce it at a price which together with transport charges, etc., will make it less than the foreign salt. That is, you will have to produce at less cost than the foreign salt.

A.—Therefore, I say it is not possible to do it unless you increase the import duty on the foreign salt.

Dr. Hyder. Q.—Actually the Calcutta ring keeps the imported salt at such a figure that the Madras salt cannot compete with it?

A.—I do not know that.

Q.—You say that it has been proved that just as pure a light salt can be made as heavy salt and that light salt is not intrinsically worse than heavy salt irrespective of the method by which it is sold to the consumer. But if you take actual examples on the bazar and analyse them, does not the result show that greater percentage of dirt is found in the light salt than in the heavy salt?

A.—I do not think it is so. Not because it is light.

Q.—What I say is the lighter salt if analysed generally proves to have a larger percentage of dirt.

A.—I have not seen figures to prove that.

Q.—You say that there is no truth in the statement "that because the retail trader likes to make his profit by selling light salt, he forces the consumer to consume light salt whether he wants it or not." The average consumer is not aware of the fact that the duty is levied on the weight and sold by measure?

A.—No. The poorest class of the consumer does not think of the question at all.

Q.—You say the assumption that the retail trader can force a consumer to take any salt which he likes for any price he asks for it is not true, but it is not a fact that the man who possesses a number of grades of salt can always undersell the man with one grade?

A.—Only on the assumption that the man with many grades has a grade of salt which is lighter and yet costs the same or less than the one grade salt which the other man has. Otherwise, the man with the one grade could afford to charge less than the other man could charge for his lighter

grades. You cannot force a consumer to buy a particular kind of salt. The consumer does not care for anything, whether it is light or heavy, but only cares for the price.

Q.—You say that the separation of the departments has resulted in an increased efficiency in salt work. Is that so with regard to patrolling?

A.—I think so.

Q.—Then you give us a note on the supply of salt to Bengal. You say it is impossible to speak positively before a thorough examination of all possible areas for salt manufacture along the coast has been undertaken. You suggest that the whole supply should be taken from Madras. That is rather an extraordinary case.

A.—It is.

Q.—Nobody has suggested that Madras or Bombay or India should ever attempt to secure the whole market.

A.—My point is that you cannot *compete* with the imported salt. You must stop it altogether. You have to put on an import duty if you wish to supply the Bengal market.

Q.—You contemplate the stopping of all imports by high duty, but would not that result be obtained by simply giving the local salts an advantage either by duty or subsidy?

A.—Yes; but Government would lose revenue.

Q.—Then you say that factories would have to be nearly doubled. That would mean a large recurring expenditure. Actually one big factory does not necessarily involve large increase.

A.—By doubling the area of land under salt cultivation you would not double the expenditure on guarding necessarily but you would increase it very considerably.

Q.—You can make a considerable increase in your larger factories.

A.—Yes; but the capital cost of forming salt pans, even if additions to existing factories, would be very large.

Q.—What exhausts your money is the petty factory.

A.—That is true.

Q.—You are aware of the Runn of Cutch where you have 100 square miles which has got the purest salt?

A.—I do not know about that.

Q.—You have ports in Kathiawar from which you can import it.

A.—I do not know that.

Q.—What is the justification for supplying duty-free salt for fish-curing?

A.—I think the justification is to encourage the industry.

Q.—If a vegetarian takes salt he will have to pay duty, but if he is a fish eater he escapes the duty. Is it logical?

A.—I do not think it is logical.

Q.—What is the amount which the Government of India lose on account of that every year in Madras?

A.—Nearly three lakhs and a quarter assuming the rate of duty to be Rs. 1-4-0 a maund.

Q.—There is nothing corresponding to that in any other province?

A.—Not that I know of.

29th May 1925.

BANGALORE.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE.

Dr. L. K. HYDER, M.L.A.

Mr. G. T. BOAG, I.C.S., Commissioner, Madras Corporation, was again examined and gave oral evidence as follows :—

The President. Q.—You conducted the Madura Settlement?

A.—Yes.

Q.—In the course of that settlement, you made some proposals in relation to the taxation of non-agricultural lands?

A.—I did.

Q.—You have been good enough to run through the reports of the South African, New Zealand and Australian Committees with a view to seeing how far you think those principles could be applied to a ryotwari province?

A.—Yes.

Q.—You have sent us a very rough note which, as desired, I will read to the Committee.

(The President reads the statement of Mr. Boag.)

Sir Percy Thompson (after reading the first paragraph) Q.—You should have done that when you classified the soils.

A.—That was simply to see that the original settlement was fair and to see that it did not need alteration.

Dr. Paranjpye. Q.—In any case, a first-class soil will always be rated higher than a second-class.

A.—Yes: in the case in point, in the district which I had to settle, a large irrigation project had been introduced and it was possible that this might have altered the comparative value of the soils.

Q.—It was just to check the original classifications?

A.—Yes.

The President. Q.—What is going to be the future of the Madras land revenue system if legislation is imposed which results in limiting all increases to 18¾ per cent and making the rates for individual districts, and not the rate of taxation for the Presidency, subject to the vote of the legislature?

A.—I should think that the practical effect, as far as resettlement operations go, would be that they will be restricted to seeing that in the 30 years' settlement prices have risen by something more than 18¾ per cent.

Q.—In other words, each settlement will be a foregone conclusion.

A.—Yes, subject to the rise in prices. If prices have only risen by 15 per cent you are not going to put the assessment up by 18¾ per cent.

Dr. Paranjpye. Q.—You would use the ratio 18¾ per cent only in cases where the assessment reaches the half net assets limit?

A.—The assessment fixed at present is less than the value of half the net produce; and it follows that if prices have risen and the assessment is raised, the resulting assessment will still be less than the value of half the net produce.

Q.—Suppose at present the rate of assessment is 4 annas and prices have not risen during the last 30 years: in that case, would you advocate an increase in assessment?

A.—Certainly not, because any increase in assessment can only follow from a rise in prices.

Q.—There are some districts in which the assessment may be 6 annas in the net assets, some others in which it may be 4 annas: in order to level up the rates, would you make an increase?

A.—I presume you are taking 4 annas as a proportion of the produce.

Q.—Would you make use of the 18¾ per cent at every interval of 30 years to level up the assessment to the same pitch?

A.—I understand you to say that 18¾ per cent is to be the maximum at any settlement: if so, the only means of levelling up would be to take 18¾ per cent as your maximum increase and, in the case of the fields which already approach nearer the half net, take something less.

Sir Percy Thompson. Q.—Suppose as between two settlements you had to limit the rate. Take the years to be 1, 31 and 61: In year 31, you limit some of the land to 18¾ per cent and, therefore, compared with other lands, it is underassessed. During the next 30 years, there is no rise: would you still allow the 18¾ per cent to operate in the 61st year so as to bring those lands to the same level as those lands which were subject to the operation of the 18¾ per cent before and were therefore underassessed?

A.—I do not think you could do that if there had been no rise in prices.

Q.—By hypothesis, your assessment in year 31 which was limited to 18¾ per cent was too low.

A.—Yes, but are you justified in putting that rate on a generation later?

The President. Q.—The legislation contemplated is that at any settlement there shall not be an increase of more than 18¾ per cent over the previous settlement?

A.—Yes.

Q.—And the settlement will be solely on the basis of the prices within the last 30 years.

A.—That is so.

Dr. Paranjpye. Q.—Suppose there are two districts, in one of which at present the pitch of assessment is 4 annas per rupee of the net assets, and in the other 6 annas per rupee: there has been no increase in price during the 30 years. Now, are you going to use the 18¾ per cent increase in the case of one district and not in the case of the other in order to bring those two districts to a level?

A.—I do not think you can use the present system very well to bring one district on to a level with another, because under the present system each district is taken entirely by itself, and the series of years on which you calculate your prices are different for each district.

Q.—It is acknowledged that different districts are assessed at different rates; consequently, in order to have a fair land revenue assessment, you must have all the districts rated at the same pitch.

The President. Q.—If this legislation is carried out, those inequalities will be carried on to perpetuity.

A.—I think that is inevitable.

Q.—What do you contemplate would be the result on land revenue generally of the introduction of such legislation?

A.—If we keep the present system?

Q.—It would perpetuate inequalities so long as the increase of prices continue as at present, and it would be an expensive way of arriving at a foregone conclusion.

A.—Yes.

Q.—It might create difficulties in having the legislative body voting, not a tax on the community as a whole, but a tax on single districts.

A.—Yes.

Q.—What is your view in regard to the practicability of substituting a tax assessed on the capital value of land as in the colonies?

A.—It can undoubtedly be done: but here the actual processes of valuation would entail a great deal of work and would cost just as much as a resettlement.

Q.—Would it cost more?

A.—I do not see why it should cost more.

The Maharajadhiraja Bahadur of Burdwan. Q.—If it were to cost as much, do you think that the balance of advantage would be in favour of your present system or one of the systems in vogue in other parts of the world?

A.—I think the balance of advantage is in favour of a system of taxation of values, if the cost be the same.

Q.—Your personal opinion is that an assessment based on a valuation of the land made according to one of the systems now prevalent in other parts of the world is preferable to the existing system?

A.—I think it is more satisfactory certainly.

The President. Q.—On the ground that it would be uniform, would be voted as a tax for the Presidency as a whole and would be useful for other purposes.

A.—Certainly.

The Maharajadhiraja Bahadur of Burdwan. Q.—Would such a change be looked upon politically with favour in your province and would people welcome it?

A.—I find it difficult to answer the question; I have not discussed it with anybody. I do not see any reason why there should be any political objection to it except a general dislike to any change.

Q.—People have been accustomed to paying land revenue in a particular fashion and the system which is now prevalent in other parts of the world would, in the beginning, be looked upon as a novel system; but apart from its being looked upon politically with disfavour, would the people fare worse or better, that is to say, would the incidence per head be more or less?

A.—As far as the incidence per head is concerned, I should think it would remain about the same. There is one point I should like to mention, i.e., under the present system every landowner knows from the date of a resettlement exactly what he will have to pay for the next 30 years; under either of the systems which have been suggested, he would not have that certainty, because the tax might be raised every year if Government went short of money.

Q.—I think even in temporarily-settled areas in your province there is a general desire for permanent settlement.

A.—There is.

Q.—Apart from landowners in temporarily-settled areas, do you think that the tenants would favour any scheme of settlement under which they would be subject to a change in the rent-roll every year?

A.—No.

Q.—Supposing a ryot knows that he would have to pay Rs. 10 every year for thirty years: probably under the new system, the assessment might remain the same; still, if the ryot has a feeling that one year it might be Rs. 9 and another year it might be Rs. 11, do you think he would welcome such a system? I think he would rather prefer a tax that remained stationary for 30 years whether it be Rs. 10, Rs. 11 or Rs. 12.

A.—The element of certainty is a point in favour of the present system.

Q.—It is important to know what the average ryot in your ryotwari tract would feel in the matter. This kind of settlement we do not have in Bengal.

A.—I imagine the ryot would say that he wants a permanent settlement; failing a permanent settlement, I think he would say that he would prefer to go on as he is.

Dr. Paranjpye. Q.—Although the total amount of land revenue obtained might remain the same, it would bring about a greater equality of burden. We have been told that in the Madras Presidency land assessment varies anything from about 2 annas in the rupee to nearly 6 or 7 annas in the net assets.

A.—May be.

Q.—When we have your system, the tendency will probably be that the people who pay at present 2 annas will have to pay more; on the other hand, people who have been paying 6 annas will pay less. Some people would benefit, others might suffer.

A.—It is rather difficult to make a comparison from this point of view. I should think that the general effect of any taxation on the basis of valuation would be that the owner of the most valuable land would pay more than he does now, and that the owner of the least valuable land would pay less.

The President. Q.—If one district is very much underassessed as compared with another, the result of the introduction of a valuation system would be to level them up.

A.—Yes.

Q.—The district that is underassessed would object, and that which is over-assessed would welcome it.

A.—I do not admit that any district is over-assessed.

Dr. Paranjpye. Q.—If we get a flat rate, you would admit that some districts will benefit and that some others will suffer?

A.—I would say that the poorer land in each district might get off more lightly than it does now while the more valuable land may have to pay more.

The President. Q.—Is there any relation between land assessments as between districts?

A.—As a matter of fact, I think there is. I do not think there is very much difference between the assessment in one district and that in another, but I only know a comparatively small part of the Presidency.

Q.—Suppose in one district you get a settlement which gives an increase of 67 per cent which is reduced to 18¾ per cent: in a district which was settled before, suppose the increase was 37 per cent and you ordered 25 per cent to be taken. One would suppose that the former district was underassessed compared to the latter, while the actual calculation would show that the former district would pay more.

A.—Yes.

Dr. Paranjpye.—Gujarat is heavily assessed: on the other hand, the Deccan and the Southern Mahratta country are lightly assessed.

The President. Q.—The policy of assessment has varied from year to year?

A.—Undoubtedly it has.

Q.—Would you prefer a valuation of annual values or capital values?

A.—I do not quite see how you could arrive at a valuation of annual values.

Sir Percy Thompson. Q.—How can you get the capital value without arriving at an annual value?

A.—I should think that you could get at the capital value from the actual value of lands which have changed hands.

Dr. Paranjpye. Q.—Land is priced, not only for productivity, but for various other purposes?

A.—If you take the capital value of land, all these things ought to be taken into account.

The President. Q.—I understand you would arrive at it by taking the *taram* in which the land is at present classified.

A.—Yes.

Q.—Practically the valuation would be for a *taram* and would be more or less uniform in a village?

A.—Yes, probably.

Q.—What you do would be to take the valuation of one *taram* and then try to ascertain by registered documents what the value of the land in that *taram* has been registered at?

A.—Yes.

Q.—How do you proceed to get the annual value of land in a particular *taram*?

A.—I suppose you would have to try and find out the rent of the land in the particular *taram*. But there you are up against the difficulty that a very large proportion of agricultural land is rented not for a fixed sum of money or for a fixed quantity of grain but for a share of the crop which varies very much.

Dr. Paranjpye. Q.—At half shares?

A.—Half, one-third, one-fourth and so on. I have known of cases where it is as much as three-fourths to the owner.

Sir Percy Thompson. Q.—What is precisely the difference between net assets, the rental value and the annual value?

A.—There is no difference.

Q.—You say that the net assets are ascertained over the whole ryotwari area in the Madras Presidency?

A.—In theory, yes.

The President. Q.—But the net assets are valued with reference to certain standard crops irrespective of what the land is used for.

A.—Yes.

Sir Percy Thompson. Q.—Do you agree that the capital value in the case of agricultural land must bear very nearly a constant relation to the land revenue? Capital value is the capitalization of future profits and future anticipated profits. How would you ascertain what those future profits would be? I suggest that what is sold is a piece of land which is subject to land revenue. If you are going to abolish land revenue, then your capital value will become entirely different.

A.—Yes.

The President. Q.—Whether you are proceeding on capital value or annual value, you are enquiring into the other and taking the results.

A.—Yes.

Q.—With regard to the question of improvements, I think this is the only province which takes them into account.

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q.—Suppose a tenant in the ryotwari area made an improvement by way of digging a well within the period of settlement, it is not taken into consideration at all.

A.—Yes. If we find that the land yields a better crop and is more fertile, we say that we will not charge it a higher assessment on account of the increased fertility owing to the improvements.

The President. Q.—Practically the only allowance that you make is for a well?

A.—I would not go quite so far; for, suppose a good farmer has manured his land heavily, we should not on that account raise the assessment on his field.

Dr. Paranjpye. Q.—How long do you exempt these improvements?

A.—In Madras they are exempted permanently.

The President. Q.—If your valuation and the application of the rate showed that certain lands have been considerably underassessed, do you think that political pressure would be brought to bear to such an extent that the Government will yield to it and alter the valuation?

A.—I do not see how they can alter the valuation.

Q.—You do not consider it desirable that the present inequalities should be perpetuated?

A.—No; it seems to me that if the Government sends out a staff to value the land and provided the valuation is done satisfactorily, the valuation must stand.

Sir Percy Thompson. Q.—Suppose you have this capital value system and you do find that in certain cases it does result in an increased assessment. Now, the politician who now says that it should not be increased more than 18¾ or whatever it is, would he not then, for the same reason—whatever it be—raise his voice if you have got the capital value? Why is he going to take a different attitude then?

A.—One way of meeting that would be to limit the amount of increase that they would take. I do not see how they could say that you should lower the valuation in an arbitrary way.

Q.—Now the politician comes in and says: "You shall not increase the tax". Will you not be in the same position as in the other case?

A.—Yes.

The President. Q.—Would it not be more difficult for the politician, when you have a uniform rate of tax, to make a different case for exempting one particular case?

A.—I think it would remove the danger of differentiation between district and district.

Q.—Can you definitely say how the rates on similar land in different districts actually in force at the present day compare?

A.—As I said just now, in the few districts that I have seen, there is very little difference.

Q.—There are no data by which you can effect a comparison.

A.—No; unless you examine the various settlement reports.

Q.—Would you mind developing your scheme?

A.—You have got for every district a table of rates based on the productive capacity of the soil; and, as far as I know, the only reason why the rates in one district differ from those in another is, because the commutation rate was based on the prices prevailing in a different series of years.

Q.—Is the difference not also due to the fact that, as another Settlement Officer said, whereas the commutation rates are based upon normal food crops, a lot of these lands have acquired a special value because of the industrial crops?

A.—That I do not know. I know that in a great part of Madras cotton is grown. But cotton is never grown twice running on the same land. It has always in rotation with a food crop.

Q.—Are there not cases in which the process of adjustment following the settlement classification has been altered for reasons not applicable to the classification at all?

A.—Yes, that is so. But my point is rather this: that after all these things have been carried out, you do get a table of rates which does fairly represent the fertility of the different soils. As you go down the table, the rate represents for each *taram* a fair proportion of the net proceeds.

Q.—You modify that table of rates with reference to the further commutation table taken for all the districts?

A.—I take the same series of years for all districts. And if it is brought to notice that in any particular place the rates were unequal or unfair, there will be a special enquiry into that.

Sir Percy Thompson. Q.—The advent of a railway, for instance?

A.—Yes.

The President. Q.—Having standardised your assessment throughout the Presidency, would you then advocate income-tax on large agricultural incomes?

A.—I have been thinking about that; and I find it very difficult, unless you are going to assume that the agricultural income is a certain percentage of the standard rate, to arrive at the income.

Q.—You may have some such assumption as they have in England.

A.—Yes. Of course, the difficulty here is that in so many cases the rent is a share of the crop.

Q.—You may take a fraction of the land revenue subject to the option of producing accounts.

A.—Yes.

Q.—On that basis, would it be more or less difficult to ascertain agricultural incomes than it is to ascertain incomes from trade?

A.—If you take agricultural incomes as a fraction of the assessment, I should think it would be easier.

Q.—Could you give us an idea how you would find out the person liable to income-tax on his agricultural income alone and a person liable to income-tax on his agricultural income added to trading income?

A.—I suppose you will have to rely upon your village officers to a very large extent to send a return of the names of persons paying more than a certain amount of assessment.

Sir Percy Thompson. Q.—But would not there be cases ranging from a small amount of rent, say, Rs. 50; but he might be liable if he gets an income of Rs. 2,000 from other sources?

A.—But I think you could get all those cases returned from the villages.

The President. Q.—Actually you have a record of all land assessments?

A.—Yes.

Q.—In the case of a trader who has a small area of land, you would always have his name in the original village, wherever he may reside.

A.—Yes.

Sir Percy Thompson. Q.—What do you mean by the paragraph at the end about registers?

A.—That at least half of the work of resettlement is bringing up to date all the registers of landowners.

Q.—In other words, they are not so at present?

A.—In many cases, they are left from one settlement to the next.

Q.—Would not that be rather a slender basis to assess income-tax on?

A.—Yes; you must devise some means for keeping them up to date.

The President. Q.—It is part of the duty of the village officers to keep the records up to date.

A.—They all have private registers.

Q.—May we come to the question of the separation of charge for water from land revenue? It has been suggested to us that if this new legislation is introduced, in so far as the combined charge for water and land continues and in so far as, in the case of all new works, you have to introduce the separate water-rate because the combined charge would not pay the cost of the works, you must have an increasing divergence between the charge for water on the older lands and the charge on the new schemes.

A.—Yes.

Q.—And the only way to make things fair, if you have this 18¾ limit, is to separate the charge for water from the charge for land; otherwise the existing wet land will be perpetually underassessed when compared with the rest.

A.—Yes; but I have not been able to see how in the case of the old irrigated land you can separate the charge for water from the land assessment.

The Maharajadhiraja Bahadur of Burdwan. Q.—It has been suggested to us in certain quarters that although it may be desirable to separate the two—the water-rate and the land revenue—owing to certain practical difficulties, it would be better to leave things as they are. You have stated just now that you have also taken these difficulties into consideration. And, in view of those difficulties, do you still think that the separation would be practically possible?

A.—I do not think it is practically possible.

The President. Q.—The alternative is that you go to a district which is now grossly underassessed because you are taking a share in the water and you say you are never going to raise the assessment beyond 18¾ per cent?

A.—I do not think it is possible. I think the present consolidated assessment should continue.

Q.—May we come to the assessment of non-agricultural lands? Could you tell me what was the procedure adopted in Madura district?

A.—My proposal was to assess all lands within the limits of the towns as building land and not as agricultural land.

Q.—That would be a taxation measure? Now would it be fair to apply it equally to the lands which are paying heavily to the Government and to lands which are not?

A.—The ground rent is liable to revision at resettlement; you might lower or bring the assessment on other lands up to the same level.

Sir Percy Thompson. Q.—You have three pieces of land: one piece of land is charged 4 annas, another piece of land is let at Rs. 200, and the third is an old village site free of revenue which has since been let by a private owner at a fixed rent of Rs. 200. What is to be the tax on the three pieces of land?

A.—I am not sure how far you are entitled to touch the free site. I doubt if you are entitled to charge anything at all.

Q.—By way of a general tax? You must tax on the same principle, on identical value.

A.—Then they ought to pay the same tax.

Q.—Now a remedy has been suggested. You might deduct the rent paid to the Government until a new revision comes in. If you suggest you should deduct Rs. 200 paid to Government, you should similarly deduct Rs. 200 paid to the private owner?

A.—I think so.

The President. Q.—Can you tell me what happened in the settlement of town lands in Madura town? Did you revise them?

A.—I revised the rates on sites which were already assessed to ground rent.

Q.—On what basis? You did not bring them to rack-rent?

A.—I think so, if I remember right. I proposed to increase the ground rents by the percentage of increase in the value of the land or something of that sort. I cannot remember exactly.

Q.—You would introduce a special rate for land assessed at agricultural rates?

A.—Yes.

Q.—Will it be a tax or a ground rent?

A.—A ground rent.

4th July 1925.

BANGALORE.

Present:

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., *President.*
Sir PERCY THOMPSON, K.B.E., C.B.
Dr. R. P. PARANJPYE.
Dr. L. K. HYDER, M.L.A.

Mr. G. G. SIM, C.I.E., I.C.S., Financial Commissioner of Railways, was examined.

Written memorandum of Mr. Sim.

Statement of case.—The papers accompanying the Board's memorandum on the subject of taxation of railways by local authorities (which were submitted to the Indian Taxation Enquiry Committee in February last) explained the case. The railway administrations have been watching with some concern the growth in amount of taxes paid to local authorities and the tendency towards exploitation of railway property in the interest of the finances of local authorities which is becoming increasingly manifest. The protection to railway administrations from local taxation provided in the special machinery of the Indian Railways Act has been found to be illusory in many instances, and the attempts made in the past to place matters on a proper footing have not proved successful. In view of this, the Railway Board desire to emphasise the desirability of taking steps to protect railway revenues from further exploitation.

2. As stated in the memorandum, the railway administrations recognise that they are liable, as units of the general public, for all taxes of a general nature and for a service tax where the particular service is rendered. The railway administrations very often make their own arrangements for conservancy, water-supply, lighting, drainage, etc., and as these special arrangements mean the incurrence of considerable expenditure by the railway administrations, and are usually in place of the (frequently less efficient) services rendered by the local authorities or are such as would do away with the necessity of the services being rendered by the local authorities, the right of the railway administrations to retain the power to accept or reject the amenities provided by the local authorities should be conceded. It happens also sometimes that a railway colony which is situated outside the limits of an adjoining municipality is included within the municipal limits, with a view to rendering the railway administration liable to pay the municipal taxes. Under the existing law, the Local Governments are final authorities in the matter of determining municipal limits, and sometimes the railway administrations are much against their wishes brought within municipal limits. It should be competent for the Government of India to allow a railway administration to remain outside a municipal enclave if it chooses to do so, and sufficiently good grounds exist for such a course.

3. Practically all the railways in India are the property of the State, and on general grounds it is inadvisable that any Government, subordinate or superior, should tax another. However, the liability of a railway administration as a unit of the community to the payment of general taxes to a municipal body has been admitted in the past, and it is of little use now to suggest a reversion of that general decision. It is advisable, however, to restrict, as far as possible, local taxation upon railways owned by the State; any increase in the volume or extent of such taxation must necessarily reflect upon railway revenues to replenish which the railway administrations could only have recourse to enhanced rates and fares.

4. It is further desirable that definite rules should be laid down regarding the liability of railways to municipal taxation. The practice differs in

different provinces. In most provinces the taxation appears to be confined to land occupied by buildings, while in some cases taxation has been imposed on all railway land within municipal limits. In other provinces, again, "waste" land is exempt from taxation. The method of assessing, again, varies in almost every province.

5. As shown above, the railway administrations are usually responsible for the sanitation, etc., of the land occupied by them, and it appears reasonable that railways should not be called upon to contribute towards the cost of direct services such as conservancy, water-supply, etc., except in cases where such services are directly rendered to them by the municipalities, in which cases it would largely be a matter of contract. Their contribution to the general taxation should be restricted to their appropriate share of municipal expenditure apart from such direct services.

6. Again, some differentiation from the rest of the community should still be made in the treatment of railway property for purposes of taxation, as a railway administration is a public utility institution like a municipality (or other local authority) and the presence of the railway contributes to the prosperity and development of the municipality (or other local authority). For instance, it would not be unreasonable to claim exemption from municipal taxes for railway buildings and structures which are provided free of charge to railway passengers for their comfort and convenience, such as, waiting rooms, platforms, refreshment rooms, etc., and for hospitals, dispensaries, schools, etc., provided by the railway administrations for the benefit of their employees. Again, uncovered lands, lands taken up for track, sorting and marshalling yards, sidings outside station limits, etc., should be exempt from taxation, as local authorities cannot conceivably be expected to render any service in respect of this class of land.

7. "Market value", which sometimes forms the basis for the valuation of railway property, is inequitable in its application to railway property, in whose case the "capital cost" is the only correct factor for the assessment payable by railway administrations.

8. Under the existing law, the special protection to railways takes two forms, viz., (1) the liability of a railway administration should be notified by the Government of India, and (2) an appeal is provided to an officer appointed under section 135 of the Indian Railways Act. The appeals to the special officers appointed under section 135 of the Indian Railways Act very often result in adverse decisions to the railway administrations, as the officers (who hear the appeals) were at one stage or other of their official service connected with local bodies and are naturally pre-disposed in favour of local bodies. If definite and clear rules could be laid down to regulate the classes of railway property to be taxed, and their valuation and assessment, as well as other matters pertaining to taxation of the railway administrations by local authorities, there will be no necessity for the Government of India's intervention in declaring the railway administration's liability to the payment of any local tax.

Terminal taxes.—Certain papers on this subject have already been supplied to the Indian Taxation Enquiry Committee. The Railway Board in their letter No. 2533-F, dated the 9th February 1925, to the Committee have also expressed the opinion that "terminal taxes on goods and pilgrim taxes on passengers collected through the railway administrations are, in fact, taxes on transportation and as such are wrong in principle."

2. One of the results of the unification of the country arising from the British administration was the abolition of the numerous transit duties which till then had checked the circulation of goods. The present terminal taxes arose out of the old octroi or town duties. These town duties were frequently the subject of discussion, but the principle maintained by the Government of India was enunciated by Sir Charles Trevelyan when introducing his Financial Statement in 1864, viz.—

"The principle that town duties are a tax on the consumption of the towns for whose benefit they are levied and that they should, on no account, be extended to any article belonging to the transit or general trade, ought to be jealously guarded."

In pursuance of this principle the Government of India laid down the following conditions* to be applied when imposing an octroi:—

"(i) The articles taxed should be the main staples of local consumption and should be as few as possible, and

*Home Department Resolutions Nos. 55-60, dated the 24th April 1899.

(ii) the utmost facilities should be given by way of arrangements, either for passing articles through town limits under bond or for facile refund on exit of duties levied on entrance."

3. Until 1913, the Government of India strongly opposed the substitution of terminal taxation for octroi or town duties levied by municipalities on the ground that it was of the nature of a transit duty and that this form of taxation did not conform to the general principles laid down for the levy of octroi duties, viz., that such duties should be restricted to a few articles of local consumption and should not be imposed upon articles of general commerce or interfere with the natural course of transit trade. The whole question was, however, raised by the Local Governments in 1910-12, there being a strong opinion in favour of the former form of taxation. The objections taken to the octroi system were that it could not be worked without grave abuses, great expense and failure to secure one of its professed advantages, viz., that it should not tax through trade. It was pointed out that though octroi theoretically imposed no burden on through trade, the refunds to which exports were entitled under the system were for various reasons not obtained in practice, and the system gave the amplest opportunities for peculation and caused the most serious inconvenience and delay. A system of a light all-round terminal tax on imports with no refunds was accordingly advocated.

4. In view of the immense volume of practical experience and the practical unanimity of Indian opinion against the system of octroi taxation, the Government of India in 1913, while not abandoning the principle of exemption of transit trade from municipal taxation, agreed to the imposition of a terminal tax as being one which was on the whole less likely to be burdensome on such trade than octroi with a problematical refund. In accepting the principle of a terminal tax in lieu of octroi, however, the Government of India stated that it appeared essential to them that "to justify such a change in system the rates of terminal taxes should be substantially lower than the existing octroi, and that a tax of this description, which might be accepted without demur at a low rate, was open to serious objection when the rate was high in the case of commodities in which there was a through trade."

5. On 6th July 1917, the Government of India issued a memorandum of principles governing the imposition and collection of terminal taxes for the guidance of the Local Governments. The more important of these principles are—

(1) That in municipalities where octroi has not previously been levied, the previous sanction of the Government of India must be obtained to the imposition of terminal taxes;

(2) that the tax should not necessarily be looked upon as a step towards an increasing degree of direct taxation but may be introduced merely in order to replace octroi, provided that the receipts from the terminal tax do not materially exceed those from the octroi which it supersedes;

(3) that it should ordinarily be imposed on imports only, but that there is no objection to the taxation of exports as well as imports in places where the municipality is a large centre of export trade;

(4) that the taxation of salt, opium and excisable articles, including materials used in their manufactures and mineral oil, should always be kept at a low figure;

(5) that refunds in the usual sense of the term will not be allowed; and

(6) that the articles to be taxed should, as far as possible, be adapted to the railway classification of goods.

6. The rules of 1917 were intended at the time to provide the necessary safeguards to secure that the tax was kept light, that it was worked as simply as possible and that the convenience of railways, through whose agency it was to be collected, was always consulted. The position was, however, altered with the introduction of the Reforms, and, as already stated, these rules, which were designed as safeguards in pre-Reform days, are no longer binding upon the Reformed Governments. Under clause (a) of sub-section (3) of section 80-A of the Government of India Act, provincial legislation imposing or authorizing the imposition of a new tax requires the previous sanction of the Governor-General unless the tax is scheduled as exempted from this provision by rules under the Act. The Scheduled Taxes Rules, which were made under the power hereby conferred and which came into operation concurrently with the reformed constitution

as a whole, empower the Legislative Council of a province, without the previous sanction of the Governor-General, to make any law imposing or authorising any local authority to impose for the purposes of such local authority any tax included in Schedule II to the Rules. One of the taxes included in Schedule II in its original form was "a terminal tax on goods imported into a local area in which an octroi was levied on or before the 6th July 1917", the effect being that a local legislature became competent to legislate without the previous sanction of the Governor-General for the imposition of terminal taxation in such areas. The practical result of the provincial legislation undertaken in pursuance of this provision was to enable terminal taxation to be imposed in such areas without reference to the Government of India, while the imposition of terminal taxation in cases in which legislation authorising the same required the previous sanction of the Governor-General was normally made subject, by such legislation, to the previous sanction of the Governor-General in Council, the net effect being that the Local Governments became competent to impose or sanction the imposition of terminal taxation in local areas in which an octroi was levied on or before the 6th July 1917 without reference to the Government of India, while in other areas the previous sanction of the Government of India remained necessary to the imposition of terminal taxation. It appeared to be anomalous that while the Local Governments had the unlimited right to levy and vary terminal taxes where there had been octroi on or before the 6th July 1917, they should have no right to revise a terminal tax where it has since that date been imposed with the previous sanction of the Government of India. Entry 8 in schedule II to the Scheduled Taxes Rules was accordingly amended in 1923 so as to read—

"A terminal tax on goods imported into or exported from, a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July 1917".

The result of this entry and of the provincial legislation enacted in pursuance thereof is that a reference by the Local Governments to the Government of India is now only necessary where such terminal taxation is to be imposed for the first time in an area in which an octroi was not levied on or before the 6th July 1917, and once a terminal tax has been allowed to be imposed, or in areas where terminal tax has been imposed by the Local Governments in substitution of octroi, the sanction of the Government of India is not required to the revision of the rates, the Local Governments being free to raise them to any figure they may consider necessary.

7. In the Central Provinces not even this degree of supervision exists. In 1921 a revised Bill dealing with municipalities in the Central Provinces was passed. It contained a clause which enabled terminal taxes to be imposed in any municipality without reference to the Government of India. The clause in question was duly enacted and remains in force.

8. Experience of the past few years has shown that these powers have been used by the Local Governments more freely and extensively than could have been anticipated, and it is apprehended that the cumulative effect of such action cannot but be detrimental to the best interests of the commerce of the country as a whole.

9. A full list of the different terminal taxes now in force is not available, but the statements attached to this note illustrate the diversity in rates, classification and system, and indicate how the practice is growing. These are all instances from the last few years. A wide range of commodities has been subjected to this impost and the rates fixed in some instances are very high; for example, the rate of the tax on cloth of all kinds including hosiery and socks in three of the municipalities in the Bombay Presidency is from 8 to 11 annas per maund. In one of the municipalities of the United Provinces "piece-goods" have to pay 8 annas per maund and the same rate is charged in two other municipalities on haberdashery, millinery, etc., and on cigars and cigarettes. In some places in the Punjab the tax is as high as Rs. 1-4 on piece-goods, Re. 1 on dyes and matches and As. 10 per maund on dried fruits, oilman's stores, leather and spices.

It is open to the Local Governments to raise these rates still further to any extent they desire without reference to the Government of India. And there must be a considerable number of other cases in which the Local Governments have themselves authorized the levy of terminal taxes in substitution of octroi about which the Government of India have no information.

10. It is understood that a copy of the report of the Bombay Committee on prohibition and the abolition of the excise duties has been forwarded

to the Taxation Committee. It will be seen therefrom that a scheme of general terminal taxes was one of the proposals for making good the loss anticipated from the cessation of excise. Notices have recently appeared in the press that the Bombay Municipality are desirous of replacing town duty producing about Rs. 20 lakhs by a terminal tax on goods entering or leaving the town or port calculated to produce Rs. 50 lakhs. These taxes being tax on goods in transit may have the effect of diverting traffic from the port unless the railway and port charges are reduced. Further instances are not needed to show to the Committee the present tendency and the risk of an accumulation of imposts on trade imposed without any relation to each and many of which must operate as purely transit taxes.

11. Further examples of this tendency are not needed. The Committee will doubtless have met with other cases. Proposals made recently by the Nagina Municipality in the United Provinces, may, however, be quoted to illustrate the kind of rates which some local authorities and Local Governments are prepared to impose on trade. In this case also the tax is not proposed as a substitute for octroi but in lieu of direct taxation. In other words, it is an attempt to transfer a large share of the municipal taxation on to the people of the surrounding districts who are bound to get their supplies through Nagina. The rates proposed are as high as Rs. 2 per maund on cotton piece-goods (foreign and country) and Rs. 2-3 per maund on woollen and silk cloth (foreign and country), wearing apparel, articles made of cloth and tents, and Rs. 1-3 per maund on leather shoes, foreign leather, articles made of foreign leather, aluminium and aluminium wares. It is also suggested to impose a tax of 8 annas per maund, which is equivalent to Rs. 14 per ton, on "iron of superior quality". This is a vague description, but presumably this item includes steel. Until the Steel Protection Bill was introduced in the Indian Legislature last May, the rate of import duty on steel imported into India was Rs. 14 per ton. Nagina Municipality, therefore, proposed to impose as a terminal tax on steel a rate equivalent to the full import duty in force before the Steel Industry Protection Act was passed. After full discussion in the Central Legislature in May 1924, the duty on steel bars was increased to Rs. 40 a ton as a measure of protection. Steel bars can be landed in India now *ex*-duty at about Rs. 100 a ton. Therefore, if the proposed rate of 8 annas per maund on "iron of superior quality" is accepted, the taxation which will be paid in Nagina on steel will be Rs. 54 a ton or over 50 per cent of the value of the article landed at the port. Imposts on other articles are also extremely heavy. The proposals attempt to impose very heavy rates on what local opinion seem to consider to be articles of luxury, e.g., articles made of foreign leather, silks, perfumery, European medicines, iron of superior quality, etc. They differentiate between—

(a) foreign leather goods and similar leather goods made in India,
(b) European medicines and Indian medicines, and
(c) foreign fruits and similar Indian fruits, etc., etc.

The classification of goods in the schedules of rates submitted by the United Provinces is full of ambiguities, does not correspond with the classification in force on railways, and it will prove an impossible one to work by the railways in many respects. The railways cannot be turned into a tax collecting agency for local authorities, each of which develops its own scale and classification of goods.

12. The railway authorities cannot but regard this state of affairs with grave misgivings. The essence of the matter is that a terminal tax can be justified only so long as it is a light tax and is not allowed to become oppressive. And it was a condition of the Government of India's acceptance of the principles of terminal taxation in 1913 that it should be a very light duty and substantially lower than octroi and should only be introduced in replacement of existing octroi. Indeed, the accumulation of these petty burdens may become a very sensible infliction in the end and in matters of commerce it requires a very narrow margin indeed to turn the scale between a profitable trade and languishing one. The rules of 1917 were some safeguard against the imposition of unduly high rates. But in the changed conditions they are no longer any safeguard.

There is thus a growing tendency noticeable on the part of the Local Governments to agree to the imposition of terminal taxes and although some small local advantages may be thereby obtained, the authorities responsible are not in a position to estimate the real injury that is being inflicted upon important general interests. The multiplication of numerous different schedules at numerous municipalities, with no limit to the rates which may be charged, (a) hampers commerce, (b) may lead to what

in effect would be differentiation in the treatment of goods of different provinces, and (c) interferes with railway earnings and receipts by increasing the cost of transport and delivery of merchandise.

As regards this latter point, it has to be borne in mind that the determination of rates and fares is a very intricate business requiring careful consideration of local conditions and of the rates which a particular industry or particular traffic will bear. It is impossible to fix rates from time to time at such a level as will lead to an increase in traffic and at the same time be in the long run remunerative to railways, or to adjust them with a view to the results anticipated from the whole of the rates structure in the long run, if such delicate arrangements are to be distributed to suit the budgets of local bodies. The imposition of such rates does not only encroach upon the margin available for increasing railway rates, but is likely to divert short-distance traffic to roads and generally to upset the whole of the calculations of traffic experts regarding the ability of different kinds of traffic to bear particular rates and so ultimately likely to produce a diminution both of traffic and of revenue. It was for this reason that railway companies insisted during the discussions in 1916-17 that their prior concurrence should be obtained in each individual case where it was proposed to impose terminal tax in lieu of octroi.

13. It is difficult for the Central Government to try to watch the economic development of the country and adjust railway rates and customs duties after careful examination of trade tendencies when municipalities which are the true distributing centres can upset all calculations, practically to any extent, by haphazard variations of local duties on trade goods. In some cases these duties are a considerable surcharge on the railway and customs revenues, and as local autonomy increases the terminal tax may be enhanced until there is little or no margin left for such duties consistently with the maintenance of trade.

14. A terminal tax for local purposes can be tolerated when (a) the rates per maund on the articles taxed are very low, and (b) the classes into which goods are divided are few, very comprehensive and cover practically everything entering the town. But all the objections to a terminal tax are accentuated when (a) the rates are pitched high, (b) the schedule is divided into many classes and there is a long list of exemptions, (c) the differences between rates on different classes of goods are large, and (d) attempts are made to vary the rates according to the origin of the goods. The United Provinces proposals referred to in paragraph 11 above illustrate all these objectionable features.

15. There remains the question of the levy of the tax on goods exported from a municipality. On every economic ground such a duty is more to be disliked than duty on imports. But the fact cannot be overlooked that the imposition of the tax on goods exported has been allowed in certain cases in the past. The classification for a tax of this nature should, it is considered, be simple and the duty itself very light, certainly well below that on goods entering a town. It would also appear essential to provide in all cases of terminal taxation that goods not leaving a railway yard or only leaving port premises direct for a railway and merely transhipped at the yard or port premises should be subject to no duties whatever.

16. It is at the ports that terminal taxes levied by municipalities especially operate as transit duties. Such taxes differ from charges levied by the port authorities for the services and facilities rendered by them to the trade passing through the port. A terminal tax on such trade for the benefit of the local municipality means in ultimate effect that these parts of India which trade through that port, even the land-locked provinces, contribute towards the expenses of the particular municipality.

17. In view of the considerations stated in the preceding paragraphs, it seems essential that, if possible, some central control should be re-established in this important matter. It is hardly practical now to abolish all terminal taxes. At the same time there is a grave economic danger to the country in leaving to municipalities and Local Governments unfettered power to increase these taxes to any extent and, in certain cases, even to impose these without reference to the Government of India. It seems necessary that in the present changed conditions the principles on which local authorities and administrations may impose these taxes be restated, and the limits within which such powers might be exercised should be defined.

Statement showing the terminal taxes in force in the Municipalities in the Punjab on imports by rail—*contd.*

Articles.	Punjab.					
	Sargodha Municipality.	Moga Municipality.	Dinanagar Municipality.	Montgomery Municipality.	Lyallpur Municipality.	Certain notified areas in the Punjab.
Salt	....	3 pies per md.	3 pies per md. ..	3 pies per md. ..	....	....
Kerosene oil	....	....	1¼ annas per md.	Do.	....	....
Leather, wrought and unwrought ..	....	....	10 annas per md.	....	2 annas per md.	10 annas per md.
Oils	....	....	....	5 annas per md.	1 anna per md. ..	5 annas per md.
Wheat flour	....	....	....	3 pies per md. ..	....	3 pies per md.
Spices	....	....	....	10 annas per md.	....	10 annas per md.
Drugs and chemicals	....	....	....	Do.	....	Do.
Dyes	....	....	....	Re. 1 per md. ..	2 annas per md.	....
Matches	....	....	....	Do.	....	Re. 1 per md.
Cotton and woollen twist and yarn ..	....	....	....	Do.	2 annas per md. (cotton thread).	....
Glass and glassware	....	....	....	....	2 annas per md.	....
Anticipated revenue from tax ..	Not available ..	Rs. 16,653 ..	Not available.	Not available.	Rs. 62,051	Not available.
Incidence of taxation per head of population.	Rs. 2-10-0 ..	Less than Rs. 2.			Not available.	

(3)

Statement showing the terminal taxes imposed on certain articles imported into the Shahdara notified area.

Articles.	Rates of taxation.
Sugar, refined, including sugarcandy	6 pies per maund.
Sugar, unrefined, including gur	3 pies per maund.
Tobacco, cigars, cheroots, and cigarettes of all kinds.	6 pies per maund.
Estimated income from tax	Rs. 11,350.

STATEMENT SHOWING THE TERMINAL TAXES IN FORCE IN CERTAIN MUNICIPALITIES IN THE BOMBAY PRESIDENCY ON IMPORTS BY RAIL.

(4)

Statement showing the terminal taxes in force in certain

Articles.	Anand Municipality	Godhra Municipality.	Chalisgaon Municipality.	Malwan Municipality.
Rice, husked and unhusked and all pulses.	3 pies per md. (grains).	4 pies per md.	2 pies per md. (pulse). Rice 6 pies per md.	6 pies per md. on grains.
Sugar refined, sugar gur, and sugar candy.	9 pies per md.	2 annas per md.	1 anna per md. Jaggery 6 pies per md.	..
Dried and fresh fruits.	..	1 anna per md.	3 pies per md. Coconut 1 anna per md.	..
Barley and oats of all sorts.	..	..	..	6 pies per md.
Timber of all kinds.	..	2 pies per md.	3 pies per md.	..
All kinds of piece-goods and other textile fabric, silken, woollen, including all articles of clothing or dress.	..	..	..	..
Gunny bags ..	..	..	..	..
All metals, wrought and unwrought and articles made of them.	..	..	1 anna per md.	..
All kinds of ropes and twines.	..	..	..	..
Groceries and oil-manstores.	6 pies per md.	1 anna per md.	..	..
Bran of all sorts ..	..	..	..	..
Coke or coal ..	2 annas per ton.	..	3 pies per md.	..
Cotton, including cotton seed.	3 pies per md.	..	..	..
Oil-cakes	..	..	..	..
Tobacco of all sorts, including cigarettes, cigars and snuff.	1 anna per md.	4 annas per md.	1 anna per md.	..
Wheat and wheat flour.	..	4 pies per md.	3 pies per md.	6 pies per md.
Oil-seeds	3 pies per md.	1 anna per md.	4 pies per md. (poppy seed). Groundnut 3 pies per md.	..
Ghee and butter ..	2 annas per md.	4 annas per md.	1½ annas per md. (ghee).	..
Drugs	..	1 anna per md.	..	..
Hides and skins, raw.	..	Do.	..	..
Leather and leather goods	1 anna per md.	4 annas per md.	..	..
Glassware	..	Do.	..	..
Colours	..	2 annas per md.	..	..
Cloth of all kinds, including hosiery and socks.	3 annas per md.	6 annas per md.	1½ annas per md.	8 annas per md.
Tea	..	8 annas per md.	1 anna per md.	..

municipalities in the Bombay Presidency on imports by rail.

Nandgaon Municipality.	Haveri Municipality.	Dhanduka Municipality.	Vambori Municipality.	Ranebennur Municipality.
2 pies per md.	4 pies per md. on all grains.	1 anna per md.	4 pies per md.	6 pies per md.
1 anna per md. (Sugar and candy). Gur 6 pies per md.	2 annas per md.	3 annas per md.	2 annas per md.	1 anna per md. 9 pies per md.
3 pies per md.	4 pies per md.	..	..	6 pies per md.
..	Do.	..	4 pies per md.	..
2 pies per md.	11 pies per md.	..	2 pies per md.	6 pies per md.
..	..	..	..	3 annas per md.
..	..	..	2 annas per md.	..
..	2 pies per Re.	..	1 anna per md.	..
..	..	..	..	..
..	..	8 annas per md.	..	1 anna per md.
..	..	..	..	..
2 pies per md.	..	6 pies per md.	..	3 pies per md.
..	6 pies per md.	..	..	6 pies per md.
..	..	..	..	Do.
1½ annas per md.	1 anna per md.	..	2 annas per md.	3 annas per md.
2 pies per md.	4 pies per md.	6 pies per md.	4 pies per md.	..
Ground-nuts 2 pies per md. Copra 1 anna per md.	..	1½ annas per md.	..	6 pies per md.
1 anna per md. (ghee).	Ghee 5 annas per md. Butter 4 annas per md.	..	2 annas per md.	10 annas per md.
..	2 pies per Re.	..	..	1 anna per md.
..	..	..	..	..
..	..	..	..	2 annas per md.
1 anna per md.	..	..	..	Do.
..	..	..	..	..
1½ annas per md.	2 pies per Re.	11 annas per md.	2 annas per md.	8 annas per md.
1 anna per md.	..	..	..	4 annas per md.

(4)—*contd.*

Statement showing the terminal taxes in force in certain municipalities in the Bombay Presidency on imports by rail—*contd.*

Articles.	Anand Municipality.	Godhra Municipality.	Chalisgaon Municipality.	Malwan Municipality.	Nandgaon Municipality.	Haveri Municipality.	Dhanduka Municipality.	Vambori Municipality.	Ranebennur Municipality.
Oil of all sorts, including mineral oils.	6 pies per md.	1 anna per md.	1 anna per md. Kerosene oil 6 pies per md.	1 anna per md. 1½ annas per Rs. 100.	1 anna per md.	1 anna per md. Kerosene oil 6 pies per md.	2 annas per md. Kerosene oil 6 pies per md.	..	6 pies per md. Kerosene oil 7½ pies per md.
Iron, tin and lead, zinc, brass, copper, bronze and manufactures thereof.	Do.	..	1 anna per md.	..	Do.	2 pies per Re.	1 anna per md.	1 anna per md.	2-3 annas per md.
Spices	Do.	..	Do.	..	..	8 annas per md. (cardamum).	..	..	1 anna per md.
Anticipated income from tax.	Rs. 7,981..	Not available.	Rs. 9,612 ..	Not available..	Not available	Rs. 10,308 ..	Rs. 5,712 ..	Rs. 1,925 .	Rs. 12,486.
Incidence of taxation per head of population.	Re. 0-11-7		Not available.	Rs. 1-3-5 ..	Rs. 1-3-11 .	Rs. 1-7-0 ..	Rs. 1-8-5 ..	Rs. 1-4-6 .	Rs. 1-2-7.

Statement showing the terminal taxes in force in the municipalities in the Central Provinces on goods imported by rail.

Articles. (1)	Malkapur Municipality. (2)	Ellichpur * Municipality. (3)	Amraoti † Municipality. (4)	Balaghat Municipality. (5)	Drug Municipality. (6)
Cloth	1½ annas per md.	3 annas per md.	3 annas per md.	4 annas per md. (cloth and piece-goods).	4 annas per md.
Twist and yarn	..	Do.	Do.	..	2 annas per md.
Sugar	1½ annas per md.	Do.	Do.	..	Do.
Sugar (gur)	9 pies per md.	2 annas per md.	2 annas per md.	..	1 anna per md.
Food-grain (except gram and pulse, juar and bajra).	Do.	1 anna per md. (grain and pulse).	1 anna per md.	2 annas per md (food-grains).	6 pies per md. (pulses).
Wheat flour	Do.	Do.	..	..	Do.
Gunny bags and cloth	Do.	6 pies per md.	2 annas per md.	6 pies per md.	9 pies per md.
Metals	Do.	Do.	1 anna per md.	Do. (brass and copper).	3 annas per md.
Iron and manufactures thereof	..	..	..	Do.	2 annas per md.
Oils	9 pies per md.	2 annas per md. (other than kerosene).	2 annas per md.	..	1½ annas per md.
Tea and coffee	..	..	..	..	4 annas per md.
Timber, rafters, and bamboos	9 pies per md	..	1 anna per md.	..	..
Coal and coke	3 pies per md.	6 pies per md.	6 pies per md.	..	..
Spices	..	..	..	..	3 annas per md.
Salt	3 pies per md	6 pies per md.	6 pies per md.	..	Do.
Oil-seeds other than cotton seed	..	2 annas per md.	2 annas per md.	..	6 pies per md. (til seed).
Kerosene oil	..	6 pies per md.	6 pies per md.	3 pies per tin	3 pies per tin.
Tobacco and manufactures thereof.	..	Do.	3 annas per md.	2 annas per md.	2 annas per md.
Glassware	..	Do.	6 pies per md.	6 pies per md.	..
Stationery	..	Do.	Do.	Do.	4 annas per md.
Dyes	..	Do.	Do.	Do.	Do.
Ghee	..	Do.	Do.	..	Do.
Anticipated income from tax	Rs. 29,450	Rs. 28,700	Rs. 1,59,800	Rs. 536	Rs. 9,500
Incidence of taxation per head of population.	Rs. 2-3-8	Rs. 1-15-7	Rs. 6-2-4	Not available	Not available.

* A tax of Re. 1 per cart containing any other goods except timber, cotton, raw hides and skins, myrabolams and cotton seeds and goods brought for private use shall be paid to the Committee by an importer by road.

† On the following goods imported by road, a terminal tax shall be levied at the rate of Rs. 5 per cart-load :—

(*a*) Sugar. (*b*) Gur. (*c*) Kirana (Grocery).

Statement showing the terminal taxes in force in the municipalities in the Central Provinces on goods imported by rail—*contd.*

Articles.	Yeotmal Municipality. (7)	Gondia Municipality. (8)	Shegaon Municipality. (9)	Wardha Municipality. (10)	Mandla Municipality. (11)	Notified area of Bhatapara in Raipur district. (12)
Cloth	1½ annas per md. ..	6 pies per md. ..	1 anna per md. (piece-goods and wearing apparel).	1 anna per md. ..	2 annas per md...	1 anna per md. ..
Twist and yarn	..	..	..	..	..	Do.
Sugar	1½ annas per md. ..	1½ annas per md.	1 anna per md. ..	2 annas per md...	1 anna per md. ..	Do.
Sugar (gur)	9 pies per md. ..	9 pies per md. ..	..	Do. ..	Do. ..	3 pies per md.
Food-grain (except gram and pulse, juar and bajra).	6 pies per md. ..	..	3 pies per md. (grain of all sorts).	6 pies per md. ..	..	..
Wheat flour	..	..	Do.	Do. ..	..	..
Gunny bags and cloth	..	1 anna per md. ..	1 anna per md. ..	2 annas per md..	3 pies per md. ..	..
Metals	1½ annas per md. (copper and brass pots).	2 annas per md...	3 pies per md. ..	Do. ..	..	..
Iron and manufactures thereof ..	9 pies per md. ..	..	..	..	6 pies per md. ..	..
Oils	Do. ..	..	1 anna per md. ..	2 annas per md..	..	..
Tea and coffee	..	..	..	..	..	..
Timber, rafters and bamboos ..	..	..	3 pies per md. ..	2 annas per md..	..	..
Coal and coke	1½ pies per md. ..	..	Do. ..	6 pies per md. ..	..	..
Spices	..	1 anna per md. ..	..	..	..	1 anna per md.
Salt	..	..	..	6 pies per md. ..	..	..
Oil-seeds other than cotton seed ..	..	..	6 pies per md. ..	2 annas per md..	..	..
Kerosene oil	3 pies per md. ..	3 pies per md. ..	3 pies per md. ..	6 pies per md. ..	..	3 pies per md.
Tobacco and manufactures thereof.	1½ annas per md. ..	..	..	2 annas per md...	1 anna per md. ..	..
Glassware	..	..	..	..	..	..
Stationery	..	..	..	..	..	..
Dyes	..	1½ annas per md.	3 pies per md. ..	..	..	1 anna per md.
Ghee	..	..	..	..	..	..
Anticipated income from tax ..	Rs. 21,088	Rs. 25,400 ..	Rs. 13,775 ..	Rs. 52,000 ..	Rs. 3,335 ..	Rs. 11,500
Incidence of taxation per head of population.	Rs. 3-10-9	Rs. 6-0-3 ..	Rs. 2-8-6 ..	Rs. 6-6-9 ..	Rs. 1-10-9 ..	Rs. 4-3-1

(6)

Copy of a letter No. 417, dated the 4th February 1925, from the Secretary to the Government of the United Provinces, Allahabad, to the Secretary to the Government of India, Department of Education and Public Health, Delhi.

[*Subject.*—Imposition of terminal tax and toll in the Nagina municipality.]

I am directed to submit proposals for the imposition of terminal tax and toll in the Nagina municipality in replacement of a tax on circumstances and property. As octroi was not in force in the town on the 6th July 1917, the imposition of the tax requires the previous sanction of the Government of India under section 128 (i) (xiii), United Provinces Municipalities Act, 1916.

2. The rates proposed are set forth in the schedules accompanying this letter. They are on the whole moderate. The Agent, Oudh and Rohilkhand Railway, who was consulted has no objection to the proposals and is willing to collect the terminal tax on behalf of the board.

3. The yield of the present direct tax no longer suffices for the needs of the town. Terminal taxation seems the best solution of the problem, and I am to request that the Government of India may be pleased to sanction the municipal board's proposals.

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(7)

Description of terminal tax with schedule.

(a) A tax on goods brought within municipal limits when conveyed to Nagina on consignment to that place by rail to be levied at the rates shown in Schedule A.

(b) No tax shall be levied on goods set out in Schedule B.

(c) In assessing the tax, fraction of a maund shall be regarded as a full maund.

Schedule A.

At the rate of 2 pies per maund.

1. Firewood.
2. Juar, Bajra, Arra, Lobia, Kasa, Matar, Joar, Sawan, Marua, Kakni and Kodon.

At the rate of 6 pies per maund.

3. Stone other than Kunkar.
4. Articles made of stone.
5. Wood mended (excluding furniture).
6. Unhusked rice, dal, and other grains (excluding those which have been specified under the rate of 2 pies per maund), chokar, khal, cotton-seeds, ardawa and charcoal.
7. Wheat, flour, suji, maida, potatoes, ghuiya, ratalu, moonda, onions and shakarkand.
8. Bamboos of all kinds.
9. Oil-seeds.

At the rate of 9 pies per maund.

10. Rab.
11. Gur, rice, khil and parmal.
12. Sau of all kinds.
13. Baskets, mattings, palm-leaves and fans of all kinds.

At the rate of one anna per maund.

14. Fresh fruits, cement, lime and quicklime.
15. Cairoo, ramrach, multani earth and chalk.
16. Fish.
17. Kach.

At the rate of 2 annas per maund.

18. Sugar manufactured by Indian methods.
19. Iron, cast-iron (ordinary), kanch bangles, tat, gunny bags, patti, pata and tripal (paulin).
20. Furniture, cocoanut boles, reeds, scale beams and articles of wood not specified elsewhere, country tobacco, hides and skins.

At the rate of 3 annas per maund.

21. Sugar manufactured by European methods.

At the rate of 4 annas per maund.

22. Honey, gaud and misri.
23. Indian confectionery and oilman's stores.
24. China and enamelled wares, kanch glass and glasswares.

At the rate of 6 annas per maund.

25. Uncompounded country and unani medicines.
26. Ramdana, sagoodana, choya, arrowroot, wax, wax candles, country soap, fat of animals and matches.
27. Ghee and butter.

At the rate of 8 annas per maund.

28. Betel leaves.
29. Copper, bronze, brass, bell-metal, gilat, tin-wares (excluding iron and ordinary steel), coloured and twisted thread, pichak, tanned leather and daris.
30. Iron of superior quality, foreign fruits and stationery.
31. Yarn.
32. Betel-nuts, lac, articles made of lac, unani compounded medicines, European medicines, grocery, spices, chemicals, dyes and paints.
33. Paper and printed books.

At the rate of 10 annas per maund.

34. Haberdashery, hosiery, comforters, millinery, drapery, caps, wool and woollen goods.
35. Cigarettes, cigars, and foreign tobacco.
36. European confectionery and oilman's stores.

At the rate of Rs. 1-3-0 per maund.

37. Leather shoes, foreign leather, articles made of foreign leather, aluminium and aluminium wares.

At the rate of Rs. 2 per maund.

38. Cotton piece-goods (foreign and country).

At the rate of Rs. 2-3-0 per maund.

39. Wollen and silk cloth (foreign and country), wearing apparel, articles made of cloth and tents.

40. Perfumery of all kinds and essential oils.

Note.—Full waggon loads of charcoal, firewoods, bamboos, timber and stone mills shall be assessed on the carrying capacity of the waggon.

Schedule B.

List of articles exempted from terminal tax.

1. All separate consignments by rail less than 5 seers in weight.
2. All parcels imported through post office.
3. All articles, the property of Government or municipal board or imported on behalf of Government or municipal board.
4. The luggage of circus or theatrical companies or of travelling exhibitions.
5. Packets of newspapers.
6. Bullion, bank-notes, coins, silver and gold in any form, precious stones and jewellery.
7. Arms, ammunitions, including all guns, rifles, pistols, revolvers, swords, daggers, cartridges, bullets and powders, percussion caps, empty cartridge cases, also detonators, fuses for use with explosives, fog signals and all explosives.
8. Opium and articles subject to excise duties, such as country and foreign liquor, charas, ganja, bhang, toddy tari, sendhi, alcohol, methylated spirits, ale, and beer and the materials for their manufacture.
9. Vegetables of all kinds.
10. All lubricating oils.
11. Dahi.
12. Karbi, bhusa, grass for thatching or fodder, hay, chaff and all fodder and cattle foods not specifically enumerated in Schedule A.
13. Uplas and kandas.
14. Ashes, cinders, gravel, sand, earth and clay.
15. Coal, coke and patent fuels.
16. Salt.
17. Water.
18. Human ashes.
19. Ballast and kunkar.
20. Machinery.
21. Bricks of all kinds.
22. Samples imported by *bona fide* commercial travellers.
23. Manure.
24. Roofing tiles.
25. Surkhi.
26. Waste paper.
27. Waste cotton.
28. Mahua.
29. Minerals of all kinds.
30. Railway stores and materials which are required for use on railways, whether in constructing, maintaining or working the same and which are not removed outside the railway land boundaries but not stores imported into municipal limits for purchase and consumption by railway employees, nor stores with which the railway co-operative stores are stocked for sale to members.

31. *Bona fide* personal luggage and household effects imported by a person on the occasion of his coming to take up his residence within the municipality.
32. Meat.
33. Eggs.
34. Wooden casks, empty kuppas and empty bottles.
35. Cotton and san ropes and nivar.
36. Reh.
37. Earthenware.
38. Moonj, ban, baib and babra.
39. Bark.
40. Cotton.
41. Unginned cotton.

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(8)

Description of the toll tax.

I. A tax on vehicles loaded with goods and on loaded pack animals and on bahangi and head-loads entering the municipality by road, to be levied at the rates and subject to the exceptions noted below:—

	Rs.	A.	P.
(1) Loaded pack animals	0	1	6
(2) Loaded carts, thela or ekka with one animal	0	4	0
(3) Loaded carts with 2 animals	0	8	0
(4) ,, 3 ,, ...	0	12	0
(5) ,, 4 ,, ...	1	0	0
(6) Loaded hand-cart or thela	0	4	0
(7) Head-load or bahangi-load (excluding loads of vegetables).	0	0	6
(8) Head-load or bahangi load of vegetables	0	0	3

Provided that on animals or carts laden with firewood, bhusa, fodder, upla, moonj, palm-leaves, palm mattings, surkhi, baskets, moundhas of all kinds, bricks of all kinds, sentha, sarkra, bark ban, mattings only the following rates shall be levied:—

	Rs.	A.	P.
(1) Loaded pack animals	0	0	3
(2) Loaded carts, thelas or ekkas with 1 animal	0	1	0
(3) ,, ,, 2 ,, ...	0	2	0
(4) ,, ,, 3 ,, ...	0	3	0
(5) ,, ,, 4 ,, ...	0	4	0
(6) Loaded hand cart or thela	0	1	0

II. On carts, pack animals, bahangis loaded with, and head-loads of cloth of every description and articles made therefrom, haberdashery, cigars, cigarettes, foreign sugar, metals and articles made therefrom, grocery, spices, dyes, paints, perfumery, medicines, chemicals, foreign fruits, leather and articles made therefrom, china and chinaware, glass and glassware, yarn of all kinds, paper, books, stationery, matches, betel leaves, and ghee a tax shall be levied at the rates of the terminal tax.

III. No tax shall be levied on head-loads or bahangi loads of or on pack animals or vehicles laden solely with the articles set out in the schedule below.

(9)

List of exemptions from the terminal toll.

1. All parcels imported through the post office.
2. All articles the property of Government or the municipal board or imported on behalf of Government or the municipal board.
3. The luggage of circus or theatrical companies or of travelling exhibitions.
4. Packets of newspapers.
5. Bullions, bank-notes, coins, silver and gold in any form, precious stones and jewellery.
6. Arms, ammunitions, including all guns, rifles, pistols, revolvers, swords, daggers, cartridges, bullets, powders, percussion caps and empty cartridge cases, also detonators, fuses for use with explosives, fog signals and all explosives.
7. Opium and articles subject to excise duty, such as country and foreign liquors, charas, ganja, bhang, toddy, tari, sendhi, alcohol, methylated spirits, ale, beer and the materials for their manufacture.
8. All lubricating oils.
9. Dahi.
10. Ashes, cinders, gravel, sand, earth and clay.
11. Coal, coke, and patent fuels.
12. Salt.
13. Water.
14. Human ashes.
15. Ballast and kunkar.
16. Machinery.
17. Samples imported by bona fide commercial travellers.
18. Manure.
19. Roofing tiles.
20. Waste paper.
21. Mahua.
22. Mineral oil of all kinds.
23. Wooden casks, empty kuppas and empty bottles.
24. Cotton and san ropes and niwar.
25. Meat.
26. Eggs.
27. Reh.
28. Earthenware.
29. Bark (except sarkara and sentha bark).
30. Cotton.
31. The camp equipage of officers on tour.
32. Laundry articles (clothing soiled or washed).
33. Bona fide personal luggage and household effects imported by a person on the occasion of his coming to take up his residence within the municipality.

No tax shall be levied on head or bahangi loads of firewood, bhusa and fodder of all kinds, uplas, bricks of all kinds, sentha, sarkara, dhak leaves, lime surkhi, chalk, stone, tiles, fishing nets and baskets.

(10)

Nagina Municipality,

Serial number.	Articles.	Assumed		
		By Rail.	By Road.	Total imports.
1	Articles at Re. 0-0-2 per maund	5,000	..	5,000
2	Do. at Re. 0-0-6 do.	16,680	..	16,680
3	Do. at Re. 0-0-9 do.	2,000	..	2,000
4	Do. at Re. 0-1-0 do	30,550	..	30,550
5	Do. at Re. 0-2-0 do.	6,525	..	6,525
6	Do. at Re. 0-3-0 do.	10,000	..	10,000
7	Do. at Re. 0-4-0 do.	2,520	..	2,520
8	Do. at Re. 0-6-0 do	1,950	..	1,950
9	Do. at Re. 0-8-0 do.	4,020	..	4,020
10	Do. at Re. 0-10-0 do.	1,320	..	1,320
11	Do. at Rs. 1-3-0 do	4,000	..	4,000
12	Do. at Rs. 2-3-0 do.	5,300	..	5,300
13	Loaded pack animals	..	1,416	1,416
14	Do. carts, thelas or ekkas with 1 animal.	..	..	..
15	Do. carts, thelas with 2 animals ..	..	8,924	8,924
16	Do. carts, thelas with 3 do. ..	..	100	100
17	Do. carts, thelas with 4 do. ..	..	50	50
18	Do. hand carts or thelas	..	..	..
19	Head load or bahangi load (excluding vegetables).	..	2,000	2,000
20	Head load or bahangi load of vegetables ..	..	10,000	10,000
21	Animals cart laden with firewood shown in provision of item 8 (Description of Toll Tax).	..	..	..
22	Loaded pack animals	..	81,500	81,500
23	Do. carts, thelas or ekkas with 1 animal.	..	..	..
24	Do. carts, thelas with 2 animals ..	..	22,000	22,000
25	Do. carts, thelas with 3 do. ..	..	100	100
26	Do. carts, thelas with 4 do. ..	..	50	50
27	Do. hand carts or thelas	..	100	100

District Bijnor.

Imports.

Existing tax.		Proposed Terminal tax on rail-borne traffic.		Proposed tax or toll (if any) on road-borne traffic.		Total anticipated revenue for imports.
Rate.	Revenue.	Rate per md.	Revenue.	Rate per cart.	Revenue.	
		RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.	RS. A. P.
..	..	0 0 2	50 0 0	..	..	50 0 0
..	..	0 0 6	522 0 0	..	..	522 0 0
..	..	0 0 9	94 0 0	..	..	94 0 0
..	..	0 1 0	1,909 0 0	..	..	1,909 0 0
..	..	0 2 0	816 0 0	..	..	816 0 0
..	..	0 3 0	1,875 0 0	..	..	1,875 0 0
..	..	0 4 0	630 0 0	..	..	630 0 0
..	..	0 6 0	731 0 0	..	..	731 0 0
..	..	0 8 0	2,010 0 0	..	..	2,010 0 0
..	..	0 10 0	825 0 0	..	..	825 0 0
..	..	1 3 0	4,750 0 0	..	..	4,750 0 0
..	..	2 3 0	11,594 0 0	..	..	11,594 0 0
..	..	..	..	0 1 6	133 0 0	133 0 0
..	..	..	..	0 4 0	..	..
..	..	..	..	0 8 0	4,462 0 0	4,462 0 0
..	..	..	..	0 12 0	75 0 0	75 0 0
..	..	..	..	1 0 0	50 0 0	50 0 0
..	..	..	..	0 4 0	..	..
..	..	..	..	0 0 6	63 0 0	63 0 0
..	..	..	..	0 0 3	156 0 0	156 0 0
..	..	..	..	..	..	..
..	..	..	..	0 0 3	1,273 0 0	1,273 0 0
..	..	..	..	0 1 0	..	..
..	..	..	..	0 2 0	2,750 0 0	2,750 0 0
..	..	..	..	0 3 0	19 0 0	19 0 0
..	..	..	..	0 4 0	13 0 0	13 0 0
..	..	..	..	0 1 0	6 0 0	6 0 0
			25,806 0 0		9,000 0 0	34,806 0 0

Mr. Sim gave oral evidence as follows :—

The President. Q.—You are Financial Commissioner, Railways?

A.—Yes.

Q.—And you had considerable experience in the levy of octroi and terminal tax?

A.—Yes, as chairman and member of various municipal boards in the United Provinces where octroi was levied, as chairman for five years of the Municipal Board of Cawnpore where terminal tax was levied, and as Secretary in the Local Self-Government Department of the United Provinces when the question of the replacement of octroi by terminal taxation was discussed.

Sir Percy Thompson. Q.—With regard to the effect of section 135 of the Railway Act, it seems, at first, that it is intended to give absolute protection to the railways. For instance, you have sub-section (1) which says that a tax cannot be imposed without the consent of the Government of India. Then again, if the Government of India say that it will impose a tax, the railway organisations have the right of appeal to a Commissioner appointed by the Government and that Commissioner may say, "You need not pay this tax; you may pay something less." That seems to be absolutely protecting the railways, at its face value.

A.—It is perfectly true that there would appear to be a complete safeguard there: but in practice, it is not a safeguard at all. The main difficulty that we have at present is that we have got no voice in deciding whether a railway colony is to be included within the limits of a municipality; and the Government of India have in effect announced that railways or the portions thereof included in municipal areas are liable to general taxation as anybody else.

Q.—That is according to the order of 1907?

A.—Yes.

Q.—Have they not retracted from that? You have stated in your note that that position is very difficult.

A.—The general order has certainly been withdrawn; but the Government of India have definitely announced that railways should consider themselves liable to general taxation; and in consequence of that general decision, the question of the liability of any particular railway administration has never been questioned. The proposal comes as a mere formality and goes through.

Q.—The Government might well announce the principle that the railway administrations have to contribute to the indirect benefits that they derive; but if the tax was imposed, it might be contended that it is unfair.

A.—The unfairness mainly arises on the initial decision as to whether a particular colony should be included within a municipal boundary. Within the last two months we have had complaints from different railway administrations that the municipal authorities in the neighbourhood proposed to extend their boundaries so as to include the railway colonies. These railway colonies at present provide all municipal amenities for the people residing therein. They provide water, provide sanitation, provide roads and do everything else and they probably will continue to do so even if included in the municipal limits.

Q.—You say that it is agreed that the railway administration should make a fair contribution to the municipal expenditure which is intended for the general benefit as distinguished from the benefit to the individual. That was not always the view of the Government of India, was it?

A.—No. They previously held that municipal authorities should not tax railways.

Q.—Except for actual direct services?

A.—Yes.

Q.—There is no controversy about that, i.e., the liability to make some fair contribution.

A.—I do not think we can dispute that now. I do not think that it is a sound decision, considering that practically all the railways are State property. My own personal view is that no Government should tax another Government.

Q.—But in other countries, I think even Government property pays a rate, the argument being that the locality is prejudiced by the existence of the Government property.

A.—Yes; it can be argued both ways.

Q.—I am not talking about the contribution for the direct benefits. The reason why Government is called upon or does, in fact, contribute to these indirect benefits is, they are taking all the room which might be occupied by somebody else who would pay, and the municipalities or the local bodies are consequently prejudiced. However, you do not regard the matter as controversial now?

A.—No, I do not.

Dr. Paranjpye. Q.—In Bombay, for instance, a rate is levied on the Victoria Terminus Station by the Corporation?

A.—Yes.

Q.—Just on the same lines as they charge any other house property?

A.—Yes. The only thing exempted in Bombay is what they call waste land—land taken up by the railways and not yet utilised. Otherwise, the whole railway property is liable to the tax.

The President. Q.—I am not quite clear about the position of section 135 of the Act. Under that section, the municipality has to secure the sanction of the Government of India before imposing a tax on the railway?

A.—Yes; the Government of India has to declare by notification that the railway is liable to a particular tax in a particular municipality.

Q.—Has it any power to withdraw a notification of that sort?

A.—Yes, under clause (3), which says, "The Governor-General in Council may, at any time, revoke or vary a notification under clause (1) of this section."

Q.—Then, it can discriminate between taxes?

A.—Yes.

Q.—But it has never attempted to make any discrimination.

A.—Yes.

Q.—The section appears to have intended that it should discriminate.

A.—Yes.

Sir Percy Thompson. Q.—Even then, if the Government of India disagreed with the Local Government as to the inclusion of a particular railway station, it might cancel that notification under clause (1).

A.—It could; but in practice, the Government of India have never interfered. They could practically annul the decision of the Local Government to include a railway colony within the municipal limits by revoking or refusing to issue a notification making the railway liable to pay any tax.

Q.—It would be a strong measure; but I think it would be within the four corners of the section to do so.

A.—But I do not think it is in accordance with the spirit of the law.

Q.—Surely, whether it is reasonable that it should be included, should be one of the things to be taken into consideration under clause (1). It is one of the factors which they ought to consider.

A.—I do not think the Local Government consider it on those lines. The Local Government having decided to include a railway colony, it is rather difficult for the Government of India to come in and say, "It shall not pay the tax."

Q.—With regard to the effect of clause (2), it gives this Commissioner who is appointed no right to revise a particular assessment. Supposing, for instance, it is a case of house tax and the Commissioner said, "Yes, you must pay the house tax"; then you say the assessment is too high; then you go to the higher tribunal.

A.—The officer authorised to entertain objections from a railway administration is the appellate authority under most of the Municipal Acts to whom appeals against assessments lie. Railway authorities generally complain that the authority whom they appeal to is a provincial executive officer who has been, during his official career, connected with municipal work and is likely to be prejudiced in favour of municipalities. I have got a case here, where the E.I. Railway made an appeal to this officer against the method of assessing their property. The Commissioner has written a long judgment. They object to the property being split up into small plots for the purpose of assessment, in consequence of which, they say, the assessment was doubled; but the Commissioner held that the Municipal Corporation were quite right.

Q.—Did he decide that in the capacity of the Commissioner of the Corporation?

A.—He was not the Commissioner of the Corporation. He was a Commissioner of the Division and he was also appointed under the Act to hear appeals.

Q.—He is not likely to be a prejudiced individual.

A.—The railway authorities contend that the executive officers of the Local Government are naturally prejudiced in favour of the municipalities.

Q.—Then it is very difficult to see what official you can appoint under that section.

A.—I quite agree; it is very difficult. If an officer of the Local Government, he will be looked upon as prejudiced in favour of municipal board; if an officer of the Central Government, as prejudiced in favour of the railways.

Q.—If the Commissioner thought that the tax was an unfair one, he could say so and fix another sum.

A.—That appears to be the procedure prescribed by section 135. But it has not been so interpreted in the past. It has been assumed that the Commissioner is a person appointed under this section to hear appeals by railway authorities against assessments, as in the case I quoted from Bengal.

Q.—In Madras, for instance, there is no person who hears appeals.

A.—I believe they go direct to the Local Government; for instance, appeals against the education cess. But certainly, in the United Provinces the Commissioner of the Division is the man who settles appeals against assessment. He is appointed by the Local Government.

Q.—That is statutory under the Municipal Act?

A.—Yes; either the Commissioner or some other person nominated by the Local Government.

The President. Q.—In one of the cases here, the Collector has given the decision. He says, "This is an application under section 135 of the Act to modify a tax imposed on the railway by the Union Panchayat of Mettupalaiyam."

A.—Probably, he was appointed by the Government of Madras.

Sir Percy Thompson. Q.—It looks as if sub-section (2) has been interpreted wrongly. The real function of the man who is appointed is quite different from what, in practice, it has been. The sub-section is quite clear. It says: "While a notification of the Governor-General in Council under clause (1) of this section is in force, the railway administration shall be liable to pay to the local authority either the tax mentioned in the notification or in lieu thereof, such sum, if any, as an officer appointed in this behalf by the Governor-General in Council may, having regard to all the circumstances of the case, from time to time determine to be fair and reasonable.

A.—But it has been assumed that he is a man who hears appeals from the railways.

Q.—I have not read it so. It gives power to the Central Government to appoint an agent.

A.—Yes. At the same time it is advisable that this agent should have some general principles to work upon. There are none at present. Cases have been dealt with in a very haphazard way. Recently in Madras

municipal boards have started to impose an educational cess; agent after agent of the railways has protested on the ground that the railway authorities themselves provide the educational facilities for the children of their employees. But the sums involved have been very small. In some cases, they were Rs. 25 or Rs. 30. There again no principle has ever been laid down.

Q.—I think they have got a bad case there.

A.—Why?

Q.—Why should not they contribute to the general education?

A.—They have been providing their own facilities. They say: "We cannot pay the cess and at the same time run our own schools; we are running the schools and the cost of these schools is very much greater to us than the cess we are asked to pay."

Dr. Paranjpye. Q.—You cannot maintain a position like that. A man cannot escape an education tax if he says that he is going to educate his children privately.

A.—But here it is a case of the whole railway community.

Q.—Suppose there is a mill in Bombay with 4,000 workers in it. They house the workers and they provide schools and sanitary arrangements. Is it right for the mill to say that because they are providing these facilities, they cannot pay the municipal taxation?

A.—Not altogether.

Q.—Part of the municipal taxation is for these purposes.

A.—But here it is purely an educational cess.

Q.—Is it right for the mill to say that they should not be made liable to pay the education cess?

Sir Percy Thompson. Q.—Are these schools open to all and sundry?

A.—No.

Q.—Then, why should they escape general taxation?

A.—Their argument is, "Then why should you insist upon our providing the schools?"

Q.—It might be a case for some compromise.

A.—Yes; I think it is a case where they ought to compromise. This is also a question which is dealt with in a very haphazard way.

Q.—The order of 1907 lays down that they should pay.

A.—Only the general taxation and not a special cess.

Q.—It lays down that they should contribute for every public object undertaken by the local authority.

A.—No; I did not read it in that way.

Q.—It says that the railway administration should contribute for the general objects; and education is one of them.

A.—It is a special cess for education. It is called 'education cess'.

Q.—That is exactly what the Government of India are dealing with. This particular cess is a tax intended to serve objects for the general good of the community as distinguished from the individual. A sanitation cess would be similar.

A.—We never read it in that way. A cess being for a particular purpose, the railways themselves supplying that municipal amenity, they should be exempt from that particular cess.

Sir Percy Thompson. Q.—Taxation for a particular service like water-supply would be for the water charged by meter. Actually we have not come to such a stage. A water-rate is earmarked for water-supply, but there is no distinction between the earmarked funds and the general funds?

A.—I think there is a distinction.

Q.—Taxation is for the general good of the community, and therefore you can say that the taxation imposed for the particular services is also for the general good of the community?

A.—Where there is a particular cess you can measure the benefits of a particular tax.

Q.—What about water-rate?

A.—In water-rate one pays not for the water consumed, but for one's share of the whole cost of the provision of water-supplies to one's neighbours.

The President. Q.—The system of taxation assessed in direct relation to the benefits conferred is in its infancy in this part of the world?

A.—I think so.

Sir Percy Thompson. Q.—May I refer to the Public Works Department letter issued in 1907 in which they said that there was no reason why the railways should not pay for such specific purpose? Why should they not pay? Why should there be any protest?

A.—I think in that letter they talked of general taxation. Where specific services are rendered, their cost can be distinguished from general taxation.

Q.—Education has been recognised as a general and onerous service. Education cess is in fact a general tax. The theory of the whole thing is that education as such is for the benefit of the whole community and not for the particular children who are educated.

In England taxes for education and other services are earmarked, but are totalled up for purposes of collection. But the total rate has got all component parts, one goes to the poor house, another goes to the education committees and so on.

A.—In this country it is not so; take the case of water-rate; it is restricted and earmarked for one object, for meeting (along with the receipts from sale of water) the expenditure incurred in connection with the supply of water. As soon as the receipts exceed such expenditure, you have to cut the rate down.

Q.—In England, suppose the rates are cut down, they are included in the general tax.

A.—Here it is dealt with separately.

Q.—My own impression is that the Government of India have taken an entirely different view.

A.—I think that is due to your taking the expressions used by them in the strict literal sense in which such terms would be used in a report by a committee of experts on taxation. The orders are vague. First of all, they issued orders making all the railways liable to the general taxes. Then they changed their view. I do not think they have ever clearly defined what they considered to be right, which particular tax railways should have to pay and how such taxes are to be assessed, etc.

Q.—You think on the question of principle we should be quite definite?

A.—Yes.

Dr. Hyder. Q.—You agree to the liability of railways with regard to the onerous taxes?

A.—There is no way out of it in view of the declaration referred to by Sir Percy Thompson.

Q.—They should pay for definite benefits received?

A.—Yes, certainly. They should pay for the services they receive.

Q.—If services are of general nature, you will agree to the position that they should pay these onerous taxes?

A.—I think under the Government of India's declaration they will have to pay.

Sir Percy Thompson. Q.—If you had a special education cess definitely levied for education alone and if the municipality in the course of time said that they would impose another special tax, you would then pay?

A.—That is exactly what they have been doing up till recently. There was no special education cess in the past. The cost of education was paid from the general revenues. But the special cess has been introduced only recently because certain municipalities started compulsory education, and the proceeds of the special cess have been earmarked for the extra sum required owing to the introduction of the compulsory system.

Q.—Is it not the case that the railways may use the services, which may be more expensive at times?

A.—What has happened in the past is this. The railways have been compelled to make these arrangements (which may be costly) when they started their operations. In the first instance they had to arrange for the housing of their staff and the provision of the municipal amenities required for them. They formed a separate colony for themselves. Inside the colony they provide roads, education, water-supply, etc. Gradually you get a town growing round the railway premises. Then a neighbouring municipality proposes to include this colony within the municipal limits. The question is whether the railways should be compelled to pay for municipal amenities which they have been providing for themselves, because they happen to be included within the limits of a municipal town. I think they should have the power to put forward their views as to whether they should be liable to pay a particular tax or not.

Q.—I am thinking rather of a case of a station like the Victoria Terminus in Bombay. Supposing they said that they did not want to take water-supply, scavenging, etc., would not the local authority be put to a loss?

A.—I do not think such a case has ever arisen. What I say is that whenever there is a proposal to include these railway colonies within the neighbouring municipal limits, there ought to be some provision by which the railway authority could state their case before an impartial tribunal.

Q.—Can it not do it before the Local Government?

A.—No. Now the Local Government means the Local Self-Government Department which is naturally prejudiced in favour of the municipalities. I have here two cases where the Agent of the G.I.P. Railway has complained against proposals to include two railway colonies at Manmad within municipal limits. In these places they have got their own private roads, water-supply, and all municipal amenities, and will get no advantage from inclusion within municipal boundaries. It must also be remembered that railway authorities differ from private employers of labour, e.g., they are entirely responsible for the whole of the sanitary arrangements on every open line.

The President. Q.—In short, what you would like is in the event of failure to agree to any contracting out, some independent authority should determine the question?

A.—Yes, that is what I want.

Dr. Hyder. Q.—In the case where you have clearly marked railway colonies it is all right, but there are a large number of stations where there are no clearly defined railway colonies and where the services are rendered by the municipalities.

A.—I quite agree. My proposal is in cases where there are separate colonies and the question of including them within the neighbouring municipalities arises, there should be some independent authority to decide the question.

Dr. Paranjpye. Q.—I believe Government always ask if the railways have any objections to put forward.

A.—But the point of the railways is that the Ministry in the Local Self-Government Department is not an entirely independent and unprejudiced authority.

The President. Q.—I know an instance where a railway company is paying two municipalities simply to be allowed to remain outside and not include them within the limits of the municipality. You want an unprejudiced and impartial tribunal?

A.—Yes.

Sir Percy Thompson. Q.—There are municipalities in this country which raise quite a number of different taxes. But in England there is only one tax, namely, a tax on land values. For instance, in the United Provinces the revenue is chiefly raised by octroi, in Madras it is chiefly raised by house tax. Does it not therefore mean that the contribution by railways in Madras is far greater than in the United Provinces?

A.—Undoubtedly.

Q.—There is no reason why it should be like that.

A.—Certainly.

Q.—Who is to decide?

A.—I think it would be very advisable to get some definite uniform system laid down.

Q.—Have you not considered the recommendation made by the municipal committees in the United Provinces on the gross earnings?

A.—Yes.

Q.—Do you think it is a feasible scheme?

A.—No. I do not think it is a possible scheme. The receipts at a station give no indication of the comparative benefits derived by railways from different municipalities.

Q.—What about your alternative; you take the gross earnings of the whole line?

A.—I do not see how you would apportion it. The gross earnings leave out of account the question of lead. The gross earnings in Cawnpore with a long lead to Bombay must be very much greater than what the earnings at Kalyan with a short lead for similar volumes of traffic.

The President. Q.—There is another alternative, that is, maundage.

A.—But the difficulty about that is, how are you to fix the rate per maund.

Q.—Is it not in a practicable way to assume on the size of the goods-sheds as an index of the traffic?

A.—I think it is possible. You could probably take the goods-shed area, but you could not take the whole of the premises, marshalling yards, etc., because they may exist to meet the requirements of through (and not local) traffic. At a big junction station there are huge yards, but there may be no local goods traffic at all, and I do not see how a municipal board could claim a rate on land used for such traffic which never leaves the railway boundaries.

Sir Percy Thompson. Q.—It is suggested that the railways should not contribute in respect of the marshalling yards.

A.—Yes; or on the permanent way.

Q.—I cannot see the reason why they should not.

A.—Anyhow they do not pay.

Q.—Simply because you have, for good or evil, taken only the value of the property. It may be right or wrong. Why should you make a particular exception in the case of railways?

A.—Railways are different from and have always been differently treated from other concerns. Outside the municipal limits there is no charge at all.

Q.—Lands uncovered by buildings are charged?

A.—I do not know that. There is no uniform practice. Usually if a man has got a godown, they only assess the value of the site it stands on. They do not usually charge vacant land in the municipalities.

Q.—Do you know of any other way of taxing, apart from taxing the railways by reference to the annual value of the property?

A.—I cannot think of any other system.

Q.—Do you think a tax on the annual value of property is fair?

A.—I think it is fair on the whole if you can get an equitable method of determining the annual value.

Q.—It is subject to the defect that the contribution by railways varies according to the methods.

A.—So it is for every business.

Q.—Don't you think it would be a strong measure to have different principles in assessment, one for the railways and another for others?

A.—No; of course there are difficulties in applying any system even if it is uniform.

Q.—You have not got this uniformity in any case, because it much depends on the amount they raise by these house taxes. Uniformity is gone unless you have a uniform tax in the municipalities. It would no doubt be more convenient to the railway companies to have one principle for all of their properties, but do you think it would be so for everybody else?

A.—Certainly. I think it would be more convenient to everybody to have a definite form of rule rather than having the present system or rather lack of system. I do not think it is satisfactory either from the point of view of the local authorities or from the point of view of the railways.

Q.—Supposing in Madras the railway company had a bare uncovered property and some other private company had the same kind of property; so far as the private people are concerned, would there not be a source for complaint?

A.—I do not think so. The fact that railways are Government property puts them in a peculiar position.

Q.—You have section 135. Are you going to urge the point that the railway properties should be treated separately?

A.—It is a very difficult section to use as long as you have this diverse practice. It is very difficult work unless you lay down some principles.

Q.—Supposing you lay down a principle that buildings or houses and uncovered land which are not used for traffic purposes should not be taxed.

A.—They remain the same irrespective of the volume of traffic. The size of a marshalling yard is not determined by the amount of the local traffic.

Q.—If you do not pay to the municipality for the land on which the marshalling yards are situated, there is no reason why you should in the other case.

A.—The marshalling yards deal with through traffic, not local traffic.

The President. Q.—If you are going to pay in proportion to the amount of traffic roughly, then you can exclude marshalling yards, otherwise not. I do not think you can ever work it by fixing a lump sum. After all, the railways must bear their share. The only difficulty will be with regard to the maximum rate. The standard rate is there. I do not think you will object to it as long as you have got a uniform principle.

A.—It is the principle that we wish to be settled.

Dr. Paranjpye. Q.—In the case of these small junction stations which owe their importance entirely to their being railway junctions, are the railway administrations prepared to take over the local administration of such places?

A.—I should think so, so far as the railway colony is considered. But whether they can take over the administration of the whole place even outside the railway limits, is another question. I have got a letter recently regarding Jamalpur which is almost entirely a railway colony. But there is a municipality there which has just raised the taxation to two or three times what it was two years ago. The railways would prefer to work their colonies as a separate municipality. As regards the taking the whole area under the railway administration, I doubt whether that is practicable. I do not see what difficulty there is in their having a separate colony. In the United Provinces, for instance, there are cases of three municipalities in the form of a municipality proper, a notified area, and a cantonment adjoining one another, and I have not known of any difficulty arising there.

Q.—If a big part of the area is taken away, the other part cannot be worked as a municipality.

A.—I doubt if a Minister for Local Self-Government would accept a proposal to allowing the railway authorities to have control over the non-railway community. I do not know if that would be a practical measure.

Sir Percy Thompson. Q.—As regards the basis of assessment, I gather from your note that considerable difficulty is felt by the railway companies. Generally speaking, there are two methods of assessment, one with reference to the annual value and other, taking an arbitrary percentage of the capital cost. Do you think it is possible to arrive at the annual value?

A.—No.

Q.—But is there no difficulty about the capital cost? When the value of the property goes up, the railway companies' contribution remains constant.

A.—But the value of the railway property does not go up to the railway. The permanent way is of the same value to the railway whether situated in a desert or in a city. If you sell a house, the purchaser will pay more than the original cost price owing to the rise in the value of land; but this would not apply to the sale of a railway.

The President. Q.—Would you object to the valuation by the Collector on the land acquisition principles, simultaneously with the revision of the assessment of the house tax?

A.—I do not think it is quite fair to the railway to take the market value of the land.

Q.—After all, the amount is not very large.

Dr. Hyder. Q.—Supposing you sell the State railway to a company, would you sell it at the capital cost?

A.—It would be sold as a running concern with reference to the profits.

The President. Q.—Suppose you gave up a piece of land and the Local Government took it over; on what basis would you determine the value?

A.—At the market rate, just as they charge us.

Q.—Take a town like Bangalore; you have got extensions all over. The railway property is going up because the town is increasing, and it is legitimate that they should pay a higher tax, and it is a question whether you can measure such an increase. But a rough and ready way can be had.

A.—I do not think that the market value principle does apply to the railway property. It never can.

Q.—Nor is it so with regard to the house tax. But as the line of least resistance, would you adopt that principle?

A.—I am not prepared to object to the principle of taking a certain percentage.

Sir Percy Thompson. Q.—If it is a constant rate on the capital cost, you won't object?

A.—No, I won't object.

The President. Q.—You mention, "It would not be unreasonable to claim exemption from municipal taxes for railway buildings and structures which are provided free of charge to railway passengers for their comfort and convenience, such as waiting rooms, platforms, refreshment rooms, etc."

A.—Yes. I was thinking of the waiting rooms, etc.

Dr. Hyder. Q.—Does not the price of railway tickets include a charge for these facilities also?

A.—I suppose it ought to.

The President. Q.—Is there any definition of 'station premises' or 'goods yard'?

A.—No.

Dr. Hyder. Q.—Is there no definition of 'station premises' in the Railway Act?

A.—No.

Sir Percy Thompson. Q.—Could you give us a definition?

A.—I could not give it straight off. There used to be a definition in the United Provinces Municipal Act, which excluded certain buildings definitely.

The President. Q.—May I take it that the platform area is distinctly to be included?

A.—I am not quite certain. I suppose you should take into consideration the platform area, the station building, and the goods-shed, if you are to take as the basis the buildings used for local traffic.

Q.—What about the motor tanks, engine sheds, workshops, etc.? Then there are also hospitals, dispensaries, schools, etc.

A.—Most municipalities exempt buildings like dispensaries and schools.

Sir Percy Thompson. Q.—It would be better to have a statutory exemption.

A.—Yes.

The President. Q.—You exclude 'hospitals, dispensaries, schools, uncovered lands, lands taken up for track, sorting and marshalling yards, sidings outside station limits, etc.' You have station land, goods yard, goods-shed, machine sheds and workshops.

A.—I do not think you can exclude workshops.

Q.—You don't want to exclude engine sheds?

A.—I am rather doubtful.

Q.—One of the things about which there is a lot of trouble is water tanks. You say 'Buildings' include houses and any other structure whether masonry or of any other sort?

A.—Yes.

Q.—Really you would accept the taxation of anything in the shape of building, but not the lands?

A.—Yes. I would not include marshalling yards. I do not think they affect the municipality.

Q.—Can you distinguish between a marshalling yard and a goods yard?

A.—Yes, certainly. A marshalling yard is where the trains are made up; where through traffic is sorted out and rearranged.

Q.—Everything in the station limits excepting marshalling yards and permanent way, you would have?

A.—Yes.

Q.—That simplifies matters considerably.

A.—I think so.

Sir Percy Thompson. Q.—You would not like the English system here?

A.—No. It has never been suggested here; committees who have reported on the matter have condemned it; and I do not know how it could be worked.

The President. Q.—You do not recommend special legislation?

A.—I think it is desirable that we have either special legislation or a special order laying down some general principles and not leave it to the individual commissioners to settle individual cases on no uniform basis.

Q.—And if you recommend a special Act, you recommend a similar one also for Government lands and other public utility bodies, such as port trusts, etc., in reference to which the law is equally vague?

A.—Yes; I think it is necessary.

Sir Percy Thompson. Q.—If you refer to the Government of India memorandum about terminal taxes dated 6th July where the principles are laid down for the guidance of Local Governments, you will find the more important of these principles are that the terminal tax should not necessarily be looked upon as a step towards an increasing degree of direct taxation, but may be introduced merely in order to replace octroi, provided that the receipts from the terminal tax do not materially exceed those from the octroi which it supersedes. Are not the words "towards an increasing degree of direct taxation" a mistake for "towards an increasing degree of indirect taxation"?

A.—No. The phrase is quite correct, but in order to understand the meaning it is necessary to explain in some detail the history of the introduction of the terminal tax. The proposals for the introduction of a terminal tax were made by Local Governments, more particularly by the United Provinces Government, as a means of getting rid of all the evils of octroi. The Government of India and the Secretary of State had opposed terminal taxes on principle, and when pressed to agree to the introduction of terminal taxes as a lesser evil than octroi, their first decisions were that the terminal tax might be introduced merely as a

kind of half-way house in the transition from indirect taxation as represented by octroi to direct taxation. The United Provinces Committee had recommended the abolition of octroi in all municipalities in the provinces, and in the majority of cases had proposed that it should be replaced by direct taxation, but in the larger towns and main centres of trade where the receipts from octroi formed a much greater proportion of the total municipal income, they had anticipated that it would be difficult, if not impossible, to obtain immediately the whole of the receipts they had derived from octroi from direct taxation, and they therefore, in regard to those particular places, proposed that they should be allowed to derive at least a certain amount of the income then derived from octroi from a terminal tax; the higher authorities had laid down originally that this might be permitted merely as a transitory arrangement to pave the way finally for the introduction of more direct taxation until the whole of the receipts could be obtained finally from direct taxation. The Local Governments, however, of the provinces where octroi was in force, anticipated that the municipalities would strongly object to any such proposal, that is, to introduce terminal taxes merely as a temporary measure with a view to the ultimate replacement of octroi by direct taxation. In this principle referred to, the Government of India gave up their original position and agreed that terminal taxes "should not necessarily be looked upon as a step towards an increasing degree of direct taxation, but might be introduced merely in order to replace octroi, provided that the receipts from the terminal tax did not materially exceed those from the octroi which it superseded"; that is, there was no obligation on the part of municipalities where a terminal tax was introduced in place of octroi to ultimately get rid of terminal taxes by direct taxation.

The President. Q.—The point in your memorandum is that there should be a controlling authority over the schedules of terminal taxes.

A.—Yes. The Government of India first laid down a principle that the terminal tax should be only introduced in replacement of the octroi and it should not be allowed under any other circumstances whatsoever. But this principle is not strictly enforced now.

Q.—Would you adhere to that principle now and say that no more terminal taxes should be levied?

A.—Yes, except in replacement of octroi now in existence and to produce an income not greater than the existing income from octroi.

Q.—The terminal tax has been introduced in many places since the Reforms, and it would be unfair to refuse it now to the other towns.

A.—Yes. But if you look at the United Provinces Report you will find that out of some 70 or 80 municipalities where octroi was in force, in 40 or 50 octroi was replaced by direct taxation and only the remainder were allowed to replace it, either wholly or in part, by terminal taxes. There was the same unfairness then.

Q.—You say they have begun to go back?

A.—Yes.

Q.—Assuming that the terminal taxes exist and you think that there should be an independent authority to fix the rates, etc., whom would you have as controlling authority?

A.—It should be the Government of India as before.

Q.—Regarding the increased rates, the railway authorities insist that they should be consulted, and I suppose they are certainly right. Would it be satisfactory if the final decision vested with the Provincial Government?

A.—No. It never used to vest with the Provincial Government before.

Q.—Would there not be a strong opposition now to go back again to the Government of India?

A.—Yes, but that cannot be helped. Otherwise there will be no control.

Dr. Hyder. Q.—You know there is a very big industry in Moradabad. Supposing the municipality wanted to realise the revenue from this manufacture, and they thought instead of going to every blacksmith, it is easier to realise the revenue from the raw material imported through terminal tax.

A.—I do not know if there is a terminal tax there. The rates are extraordinarily high not only on industries in towns but on everything else. If they tax these raw materials, I should think they are doing a wrong thing because it will do considerable damage to the local industry. The trade will certainly suffer.

Q.—But there is the presumption that the trade has established itself.

A.—I should think it is a dangerous policy for the trade.

Sir Percy Thompson. Q.—Practically your recommendation is that we should return to the pre-Reform days?

A.—Yes.

Q.—You cannot see any half-way house?

A.—No.

Q.—Would it be practicable to draw up a model schedule for terminal tax which would follow your railway schedules and impose a limitation on articles which may be taxed and rates which may be imposed?

A.—The classification can be done by following the railway tariff. But it is extraordinarily difficult to lay down any rates.

Q.—Is it difficult to lay down the maximum rates?

A.—Yes, I should say it is very difficult.

Q.—Why?

A.—Because after all, these terminal taxes are in practice looked upon as something in addition to the railway freight. The railway freights vary according to the distances the traffic is carried. Therefore, the rates by adding a few pies to the existing ones might kill the trade in a place like Cawnpore, which is a large distributing centre and a centre of wholesale trade, which works on a small margin of profit per ton as compared with the retail trade. On the other hand, a larger rate in a place like Agra may make no difference at all where the rate is on goods consumed within the municipal limits. It all depends on different centres. Cawnpore is a big distributing centre and every small increase in the rates has to be scrutinised to see that it does not affect the trade.

The President. Q.—Would it not be practicable to impose a maximum rate in any municipality?

A.—If you are going to prescribe a maximum rate, it must be a low one to suit the big centres of trade; otherwise the trade will be killed; while such a low maximum rate, necessary for the protection of the big trading centres, will bring in no appreciable income in towns which have no such trade where the imports are mainly of articles to be consumed within municipal limits and in neighbouring areas.

Q.—The big centres will not use the maximum rate.

A.—Why? There will be nothing to prevent them.

Q.—Because it will kill the trade.

A.—But that is what they have done and what they did do with the octroi rates. The octroi rates drove trades out of several towns.

Q.—You think that no maximum is better than a comparatively high maximum?

A.—I cannot say that, but I say it is very difficult to fix any maximum rates that would be suitable for all municipalities.

Sir Percy Thompson. Q.—You mean that the maximum will have to be such that it will not absolutely kill the trade?

A.—Yes. Then you will have to consider many other points relating to individual trades. For instance, they may be small places.

The President. Q.—Would it not be best to levy the tax only on the exports in certain cases?

A.—It might be worse than the other.

Q.—Take the instance of cotton that comes into a town where there is a ginning factory. In such a case, would it not be better to levy a tax on the cotton that leaves the factory?

A.—Yes, but I do not believe in taxing the raw material. It would be far better to tax the trade directly.

Q.—With reference to the notification of the tolls levied in connection with the terminal tax, do you agree to that?

A.—If you refer to the Nagina proposals, I do not agree with them at all. These proposals mean the reintroduction of octroi under another name so far as relates to traffic coming in by road. Under the terminal system in force in Cawnpore and the system which it was originally proposed to apply to other municipalities in the United Provinces, the terminal tax on goods arriving by rail was counterbalanced by a terminal toll on goods arriving by road, but this terminal toll was not levied at differential rates according to weight or amount or class of articles imported by road; it was simply a tax on carts. A fixed rate was charged for every one-bullock cart, and another rate for two-bullock cart and another rate for a four-bullock cart, irrespective of the amount or character of the contents of the carts. There was only one slight variation in the general rule that no distinction was to be made in the amount of toll owing to any difference in the nature or quantity of the contents of the carts, and this was that certain kinds of imports of very low value such as earth, ballast, grass, etc., were charged a lower rate of toll. The system was very easy to work and reduced to a minimum the inconveniences to trade or possibilities of peculation. I have seen a hundred carts pass through a terminal toll bar in Cawnpore in a few minutes. One carter would come up and ask for a hundred tickets for two bullock-carts; the charge being 8 annas per cart, he paid 50 rupees, and all that the toll clerk had to do was to see that not more than 100 carts went through. It was only when a man claimed that the goods he was carrying in his cart consisted of grass, earth, or any of the other few articles entitled to go through at the lower rate, that the contents were looked at. But in the Nagina case, while they propose to have a general rate and this lower rate for the few low priced commodities referred to, for a large number of articles they propose to levy as a toll the same amount of tax as would be collected if the goods came in by rail, and this I consider to be merely a reintroduction of octroi under another name—an octroi without refunds. It will have all the evils of octroi as it will mean stopping of all carts, the examination of the contents of all carts, the weighing of these contents, and it was this kind of evil in connection with octroi which it was sought to abolish when it was proposed to replace it by terminal taxes and terminal tolls.

Q.—Can you tell us anything about the terminal tax in Karachi?

A.—I do not know much about it. I think it is a very ancient tax there.

Q.—Have you any views on the town duty on cotton in Bombay?

A.—Yes. The railways have made a strong protest in the matter. They have said there is no objection to getting out of a terminal tax the same amount of net income derived at present from the town duty, but if the Corporation are going to take 20 or 40 lakhs more out of the terminal tax out of it, the railway traffic is bound to be reduced. It is of little use attempting to cut down railway freights or harbour dues to attract trade to a port, if the local Corporation put on terminal taxes on goods coming to the port.

Q.—Do you think it is legitimate that a town like Bombay should tax manganese which is going through that town?

A.—I think it would be starting on a path that would ultimately lead to the destruction of the trade.

Q.—The justification for octroi is that it is a tax on the consumption of the town?

A.—Yes.

Q.—In the case of manganese going through Bombay, it is purely a transit duty and contrary to every principle?

A.—Yes.

Q.—You know the town duty on cotton, which is apparently 50 per cent of the export?

A.—I do not know that. The railways always objected to this terminal tax. It hampers the railways tremendously in fixing the rates. We consider that terminal taxation generally is merely a method of abstracting a certain amount of railway revenues for local purposes.

Q.—You have not got very definite suggestions how to try and check this tendency?

A.—My view is that you should go back to the original principle laid down when the first terminal tax was sanctioned and insist that the amount raised by levying the terminal tax should not exceed what was raised through octroi.

Sir Percy Thompson. Q.—Are there any political difficulties there?

A.—Yes, there are always such difficulties. It means changing the constitutional rules. But I do not think there is any other way. The only method that the Central Government have got at present of interfering is through the railways. But if the railways were to protest and refuse to collect the tax, the municipalities would simply put a toll bar outside the railway stations and collect the tax on goods as they pass out by examining and weighing the goods as they used to do in collecting octroi.

Q.—Would there be any difficulty in having all these schedules revised under the control of a committee on which the provinces are represented and also the Railway Board?

A.—I do not think you will get much out of it.

Dr. Hyder. Q.—Would you refer the question of the rates of terminal taxes to the proposed Rates-Tribunal, who are intended to safeguard the interests of trade? I think if your Railway Board is represented on the Rates-Tribunal Committee, they might take a broader view of the case; is it not?

A.—That also would mean a change in the law.

The President. Q.—Actually under the present arrangement the railways are required to be consulted in every case; is it not?

A.—Yes.

Q.—You have been a Secretary to a Local Government in the Local Self-Government Department. Do you think it desirable to allow them to frame Acts as they do now allowing the local body to impose any tax that is admissible under the Scheduled Taxes Rules? There is great difference between the Madras Act which has got quite a number of elaborate schedules and the Punjab and the Central Provinces Acts. In the latter provinces they simply have one section by which any local body can impose any tax.

A.—The position in the United Provinces, as far as I remember, is that no municipality could impose a tax for the first time without the concurrence of the Local Government or of the representative of the Government, the Commissioner of the Division, but no such sanction was required for the variation of the rate of tax. The rules regulating assessment and collection of the tax had to be approved of by the Commissioner, but the Local Government had prepared model rules, and in practice any municipal board could make any rules in conformity with those model rules, and all that the Local Government considered were proposals for variations from those model rules. They had to look at any such variations mainly in order to decide whether they were legal, and as a result of such references, the model rules were being continuously altered, and in many cases where different systems had been devised as being suitable to different municipalities, the Government drew up alternative sets of model rules which might be adopted by the municipalities.

Q.—The Madras practice is to embody the model rules in the schedule itself.

A.—The United Provinces practice is different. The latest Municipal Act and its schedules embody only such provisions of old rules and regulations which have been found by practice in the past to be generally suitable and to work satisfactorily in all municipalities. Those general provisions of the Act or schedules are supplemented by rules or by-laws made by or for individual municipalities and it is for these latter cases that the 'model' rules are framed.

Q.—Do you think it desirable to make it compulsory to impose certain taxes?

A.—You mean direct taxation?

Q.—It should not leave complete option to the local body?

A.—I do not know that. Personally I would like to see direct taxation everywhere, in every local body, but I doubt very much if it is a practicable measure in the North of India. The only way in which I think any compulsion could be introduced in the matter of requiring particular taxes to be imposed locally would be by restricting by law the particular taxes that local bodies could impose.

Written memoranda of witnesses not examined orally.

Written memorandum of the Board of Revenue, Madras.

Q. 1—*Annexure A-II (a)*.—So far as this Presidency is concerned, the Board considers that the statistics contained in *The Statistical Abstract of British India*, which gives the quantity and value of the minerals produced are adequate. The figures in the above publication are found repeated in *The Commercial Statistics of British India*. *The Records of the Geological Survey of India*, volume LIV, contain statistics of production and value of minerals for 1920 and 1921. The returns containing these statistics are not submitted to the Board and it has no means of checking their accuracy.

Q. 10.—The land revenue of the Presidency is derived from the undermentioned sources:—

(i) *Peshkash* in permanently-settled estates.

(ii) *Shrotriyam jodi*.

(iii) Proprietary estates village service.

(iv) Ryotwari demand including water-rate.

(v) Miscellaneous revenue.

Though local-fund cesses are collected along with land revenue they must be deducted for the purpose of answering the present question. The total land revenue demand for fasli 1333 (1923-24) excluding cesses (Rs. 91,86,961) and deducting remissions (Rs. 36,91,518) was Rs. 7,19,00,067 as shown in the statement annexed. Details are given in it for important items under V—Miscellaneous revenue.

In order to decide what items are included which do not fall within the definition of a *tax*, it is necessary to define *tax*. For the sake of simplicity the Board will adopt Chapman's definition as "a compulsory contribution made to Government under stated conditions when the contribution is not a *quid pro quo* for a specific service rendered". It is obvious that items (i), (ii) and (iv) are tax revenues and do not call for any remarks. In the case of "proprietary estate village service cess", items (iii)—however, the idea of equivalent benefit is very prominent. The cess is levied in order to allow of payment to village officers by Government instead of by proprietors, and it would appear that it is not a tax, but the point is by no means free from doubt. Turning to item V—Miscellaneous revenue—the following items are apparently not of the nature of a tax:—

4. Enhanced water-rate for irregular irrigation (Rs. 5,72,498)—This is a penalty.

5. (*b*) Enhanced charge for irregular occupation of land (Rs. 22,188)—This is a penalty.

6. (*b*) Enhanced charge on *puramboke* (Rs. 3,51,160)—This is a penalty.

8. Commission on estates under the Court of Wards (Rs. 85,121).

9. Revenue from process service fees (Rs. 17,688).

10. Sale-proceeds of lands sold (Rs. 6,48,161)—Sale revenue.

13. Sale-proceeds of coir (Rs. 1,10,247)—Sale revenue.

15. *Janmabhogam* (Rs. 29,776).

19. Costs awarded in suits (Rs. 13,883).

21. Sale of fisheries (Rs. 10,824)—Sale revenue.

22. Cost of demarcation stones (Rs. 15,282).

23. Demarcation fees (Rs. 8,686).

26. Sale of trees (Rs. 9,534)—Sale revenue.

Item 15.—'*Janmabhogam*' has been included as it represents the share due to Government as landlord and not as State, but for the purpose of the present enquiry it should probably be regarded as equivalent to land revenue.

STATEMENT.

Items.	Amount.
	RS.
I. Peshkash on permanently-settled estates	50,12,575
II. Shrotriyam jodi	7,57,078
III. Proprietary estates village service	6,29,619
IV. Ryotwari demand including water-rate, second crop charge and deducting miscellaneous revenue and remissions	5,49,32,062
V. Miscellaneous revenue (details given below for important item)	1,05,68,733
Total ...	7,19,00,067

Important details under item V.

	RS.
1. Jodi and quitrent on minor inams	23,10,166
2. Water-rate on minor inams in ryotwari villages ...	14,92,494
3. Charge for water in zamindari and inam villages including tirvajasti and faslijasti	22,72,950
4. Enhanced water-rate on lands irregularly irrigated ...	5,72,498
5. Charges levied for occupation (with or without application) of assessed and unassessed lands for which no pattas have been granted:—	
(*a*) Ordinary charge	5,12,456
(*b*) Enhanced charge	22,188
6. Charges levied for occupation of poramboke land or land reserved for State or communal purposes:—	
(*a*) Ordinary charge	2,63,193
(*b*) Enhanced charge	3,51,160
7. Revenue derived from tree pattas	4,95,072
8. Commission on estates under the Court of Wards' management	85,121
9. Revenue from process service and fees	17,688
10. Sale-proceeds of land sold	6,48,161
11. Rent of lankas	6,45,206
12. Quitrent and ground rent	2,16,945
13. Sale-proceeds of Amindivi and Malabar Coir	1,10,247
14. Shell-pit rent	43,565
15. Janmabhogam	29,776
16. Mica revenue	24,361
17. Back assessment	19,284
18. Assessment on resumed inams	18,350
19. Cost awarded in suits	13,883
20. Island collections (Malabar)	13,511
21. Sale of fisheries	10,824
22. Cost of demarcation stones	15,282
23. Demarcation fees	8,686
24. Fees for prospecting minerals and quarrying fees ...	6,902
25. Lease of Government land and land acquired for railways	9,802
26. Sale of trees	9,534
27. Assessment on backyards	7,176

Q. 11.—This question refers to the items of non-tax revenues similar to those mentioned in Q. 10 included under revenue heads other than land revenue, such as 'Forest,' 'Excise,' 'Registration,' 'Agriculture,' 'Fishery.'

The items shown in the Annexure appear to answer the description of the items contemplated in this question. To these may be added the items mentioned in B.S.O. No. 18, paragraphs 4 (2) to (5) as also revenue derived from trees in the beds of tanks and trees in the bunds of irrigation sources, except those for which the Public Works Department maintains a staff of watchmen. All these items are credited to 'Forests' and the excepted item to Public Works Department.

ANNEXURE.

XIX. B. Police—Pound Fund Receipts—

(i) Fines on stray cattle,

(ii) Fees for feeding impounded cattle,

(iii) Sale of forfeited or impounded cattle, and

(iv) Sundry receipts such as sale-proceeds of manure, old materials, trees, etc.

Q. 15.—*Adequacy of water charge.*—In the case of lands classed as wet it is not easy to separate the water charge from the land revenue. This is, however, now done by taking a prescribed percentage of the land revenue assessment as a share due to irrigation. Adding to this the revenue from the water charge on dry lands, the total irrigation revenue amounted to 272.3 lakhs in fasli 1333. The revenue under works for which capital and revenue accounts are kept was Rs. 191.2 lakhs and the revenue under other works Rs. 81.1 lakhs. The question whether the charge for water is adequate depends entirely on whether all legitimate charges (including depreciation charges) are made against the works by Public Works Department, and the Board cannot definitely say whether the charge for water under these works is adequate. No provision appears to be made for depreciation of works and the debit on account of collection charges is only 5 per cent of the gross collections. It is perhaps pertinent to note that the cost of district administration excluding village establishments in fasli 1333 was 13.16 per cent of the total land revenue and cesses collected and including village establishment 26.46 per cent. The establishment charged to land revenue does, however, perform multifarious duties of which the collection of land revenue is only one. Even if the percentage allowed for collection is adequate and the omission to provide for depreciation does not seriously vitiate the figures, it would appear that the charge for water under unproductive works at least is not adequate, even if the charge under productive works is adequate.

As regards works for which capital and revenue accounts are not kept, the enclosed statement shows the outlay incurred, the gross irrigation revenue and the share collected with land revenue during the last ten years. The major portion of the outlay is, strictly speaking, maintenance or repair charges, and only a small portion represents capital outlay. It is now quite impossible to say what the capital outlay on these works was. In the absence of regular accounts maintained on correct principles by which interest on capital, depreciation on works and plant, maintenance, and cost of Public Works Department and Revenue establishments engaged in maintenance and supervision of works and collection of revenue and included in the accounts, it is impossible to say whether the charge for water is adequate. Further, the question is largely an academic one, as the major portion of the irrigation revenue derived from these works (77.2 lakhs out of 92.8 lakhs on the average) is consolidated with the wet assessment and is collected with it. As already pointed out above, the wet assessment fixed at settlement has no specific relation to the value of water and at resettlements the chief consideration guiding enhancement of rates is rise in prices and not the question of obtaining a higher return for water supplied to wet lands.

Principle on which water charge is fixed.—If 'principle' is distinguished from 'method' as it should be, then, in the Board's opinion the only discernible principle adopted is to charge the land irrespective of the crop grown or the quantity of water taken and irrespective of the additional value given to a crop by irrigation. The wet assessment is fixed at settlements and raised at resettlements regardless of the cost incurred by Government in bringing the water on to the land.

Whether to charge bare cost or commercial profit.—As to queries 1 and 2 in the question, the Board submits that the reference is apparently to new works for which capital and revenue accounts will be kept. The Board is not sure that the accounts are kept by the Department of Public Works

on recognized commercial lines and it is not certain what items would be included under the term 'bare cost'. The Board cannot therefore hazard any opinion as to which of the two courses would be preferable in the case of these works.

ENCLOSURE

Year. (1)	Outlay incurred. (2)	Gross irrigation revenue. (3)	Share collected with land revenue on wet lands. (4)	Percentage of column 2 to column 3. (5)
	RS.	RS.	RS.	
1914-15	28,77,181	91,53,436	71,34,065	31·4
1915-16	25,25,767	98,20,576	75,74,868	25·7
1916-17	24,35,469	91,57,003	76,29,222	26·6
1917-18	28,51,552	95,76,747	76,98,806	29·7
1918-19	29,23,918	76,92,072	73,05,898	38·0
1919-20	28,47,901	99,20,929	80,98,449	28·7
1920-21	29,64,885	95,73,716	79,15,440	30·9
1921-22	32,85,210	98,48,426	81,12,667	33·3
1922-23	28,44,181	99,51,292	80,92,720	28·5
1923-24	32,25,867	81,09,951	76,51,263	39·7
Average ..	28,78,193	92,80,414	77,21,339	31·0

Q. 17.—The question apparently has reference to the proposals in Q. 16 immediately preceding for claiming a share in the enhanced capital value of land resulting from the construction of an irrigation work. So far as the landholder and his tenant are concerned, the former can, under section 30 (ii) of the Madras Estates Land Act, enhance rent for improvements effected by him, and the provision of irrigation facilities is regarded as an improvement. This, however, is hardly in the nature of a betterment tax since the enhancement follows the increase in the productive powers of the land rather than the increase in the value of the land. The Madras Estates Land Act in fact contains no provision by which any charge for betterment can be made.

Q. 99.—The Board presumes that what the Committee mean is that as the settlements of the several districts are based *inter alia* on prices of foodgrains for different periods and as prices tend to rise, the tendency being particularly marked in more recent years, the incidence of assessments in the several districts is not uniform and that there is in consequence a certain amount of inequality, land resettled recently being more highly assessed *ceteris paribus* than land resettled some years ago. Such inequality would no doubt exist if at every settlement and resettlement the State enforced its right to one-half of the net produce and fixed the assessment accordingly. In practice, however, the assessments fixed at the initial settlements were less than the money value, at the commutation price, of one-half of the net produce. The increase in assessment made at resettlements represents only a fraction of the percentage increase in prices which took place during the currency of the previous settlements. There is thus not much inequality, apart from the inequality resulting from varying conditions, in the rates of assessment fixed at the resettlements of the several districts. The enclosed statement, which compares the rates of assessment on a few *taramu* taken at random in some of the recently resettled districts with those fixed in some districts resettled earlier, shows that there is little, if any, foundation for the underlying suggestion in the question, so far as wet lands are concerned, that recent resettlements have imposed a more severe burden than previous resettlements because of the rise in prices in recent years. It might be argued that as regards dry lands the most recent resettlement does show this tendency but difference in district conditions has to be taken into account and the Board does not consider that any definite inference can be drawn. Under the orders recently issued the enhancement of the rates of assessment, where it is proposed on the basis of a rise of prices only, will not in future resettlements exceed 18¾ per cent. The inequality referred to in the question is, in the Board's opinion, more imaginary than real.

STATEMENT.

Taram.	Recently resettled districts.			Districts resettled ten years ago.		Districts resettled 15–20 years ago.	
	Madura (Non-Periyar).	South Arcot (Non-Cole-roon).	Trichinopoly (Upland).	North Arcot.	Chittoor.	Chingleput.	Coimbatore.
	RS. A.	RS. A.	RS. A.	RS. A.	RS. A.	RS. A.	RS. A.
Wet—Rate per acre.							
3	8 2	8 5	7 12	8 12	8 12	7 4	9 4
4	6 14	7 2	7 2	8 2	8 2	5 12	6 14
5	5 10	5 15	6 4	7 8	7 8	4 10	5 12
Dry—Rate per acre.							
3	1 8	2 13	2 13	2 0	1 8	2 4	1 6
4	1 2	2 4	2 8	1 9	1 0	1 10	1 2
5	0 14	1 11	2 4	1 1	0 12	1 4	0 13

NOTE.—The rates entered under Trichinopoly are those sanctioned for the resettlement which is now being introduced.

Q. 105.—In addition to the royalty or the alternative dead rent, a surface rent assessed with reference to the rate fixed or which may be fixed for the land subject to a maximum of one rupee and a minimum of 4 annas per acre is being levied. The Board considers that any further taxation is unnecessary in the present undeveloped state of the mining industry in this presidency—vide Board's remarks in paragraph 2 of B.P. Mis. No. 2320, dated 2nd October 1924.

Written memorandum of the Railway Passengers' Associations, South India, Madras.

Questions 13 and 14 in the questionnaire deal with commercial and semi-commercial undertakings of the Government including railways. My Committee wish to confine their attention to railways. We do not wish to deal with the general question if commercial undertakings should be run by the Government to bring in only a return that may be necessary to meet the interest on capital invested, etc., or a commercial return or monopoly profit. It may perhaps be necessary to decide the question in each case separately on its merits. We wish therefore to confine ourselves to railways.

The Committee is of opinion that the element of taxation appears in all cases of commercial undertakings when the income from them exceeds the charges incurred for the working expenses and contributions to a reserve fund and depreciation fund along with a reasonable return on the capital involved. Anything in excess of this is a tax. In the case of Indian Railways the convention recently established is that the central revenues of the Government of India should get from railway earning "a contribution equal to 1 per cent of the capital charge in the penultimate year plus one-fifth of the surplus profits in that year . . . . and if after payment of the contribution so fixed the amount available for transfer to railway reserves should exceed Rs. 3 crores should be paid to the general revenues".

My Committee do not regard railway service as a commercial concern under the management of the Government but a public utility service essential for the well-being of every modern State, and one that in the nature of things cannot be left entirely to private enterprise. No department of modern life can thrive without quick means of transport. The increased revenue that accrues to a State through increased commerce, industries, and the higher values that land and agricultural products come to obtain, are in themselves so valuable, and in the long run so much more than what a direct tax on transport will fetch, that modern States show

naturally a greater anxiety to develop transport facilities than to regard them as a source of revenue. On the other hand, we believe—to use the words of G. Armitage Smith—"Taxes on transport are uneconomic; they tend to raise prices, to check business, to reduce consumption; and they create economic friction, etc., and are an undesirable method of raising revenue".

My Committee also beg to point out that such a tax so far as income from passengers traffic is concerned, falls heavily and inequitably upon some classes only. It is a well-known fact that the upper class passengers in this country are carried at the cost of third-class passengers. Any profits to the State that this class of traffic yields is a tax obtained from the poor who make a journey not in search of pleasure but under the compelling necessity of the economic conditions, to seek work beyond their village or district. They thus come to pay not only for the conveyance of the richer classes but also a tax to the State. Further, it is only a section of the people that use railways, and it is not right that they should be taxed in the general interests of the State. It must also be mentioned that railways are popularly regarded as an agency for the exploitation of the people, and nothing is so unpopular as the railway charges that touch their necessities.

It is no doubt true that Prussia enjoyed till before the War a large income from this source. But it was never justified as legitimate, and attempts were being made all along to wipe this out by creating a separate railway budget. We find that in Italy and France the railway budgets are treated as separate and the revenue of the States is not benefited from this source. In the South African Union Act itself, it is provided that the railways of the Union "shall be so operated that the gross receipts shall not be more than sufficient to cover working expenses, reserves, and interest on capital. If there is a surplus it is to be devoted either to improvement in facilities or reduction in rates". In Switzerland too the Purchase Act provides "that the railway earnings shall be devoted only to railway purposes". It is the same in Japan. The Indian Railway Committee who considered this question in all its details has unanimously recommended as follows:—

"What we propose is in outline that the railways should have a separate budget of their own *and assume the responsibilities for earning and expending their own income.* The first charge on that income, after paying working expenses, is interest on the debt incurred by the State for railway purposes. The annual liability of the Indian Government for the interest is 8,700,000. Whether the railways should pay precisely this amount, or a larger amount, ... is a matter for argument. We have no wish to express a positive opinion, though we think there is much to be said for letting bygones be bygones and fixing the payment to the Government at the same sum that the Government has itself to find at the present time for interest on the railway debt. The point is that the railway department subject to the general control of Government, once it has met its liability to its creditors, should itself regulate the disposal of the balance free to devote it to new capital purposes . . . . or to reserves or to dissipate it in the form either of reduction of rates or improvement of services".

Forty years ago Lord Cromer said that if these profits "were left to fructify in the pockets of the people" they would be more advantageously employed than when they are paid to the State. We find much the same view is held by economists even to-day. Jagtiani says in the book he has recently published: "Looking at the railway industry of a country as a whole, it is doubtful if it is advisable to divert its surplus proceeds for general purposes. All such surpluses after paying capital charges are in the nature of a tax and a tax on transport can only be justified in extreme cases". My Committee therefore is firmly of opinion that the State revenues should be benefited to no extent directly from railway income. That may be considered a tax. We are of opinion that all extra profit should go to swell the reserve fund or to reduce the rates and fares and provide better facilities for traffic. We are not unaware that this would mean an immediate loss of something like 6 crores of rupees every year to the central revenue and may be embarrassing to the Government. But we are prepared to accept alternative taxes and allow the revenue from railways to be extinguished not immediately but in the course of a few years. We do not forget that in the past the general revenues of the country had been meeting for several years the deficits on railways. The Committee, however, feel that

the surpluses from the railways since 1899 along with the expenditure which the railways have incurred for non-railway purposes—not to mention of the incalculable indirect benefits through the increased trade, etc.—that railways have brought in to the State have more than compensated for the loss to the State in the past. At any rate, all should accept the decision of the Indian Railway Committee that in this matter the bygones should be let to be bygones, and the State should not look for any profits or revenue from this source.

It is our considered view that in this poor country in its undeveloped condition with its vast distances and varied civilization the State must do everything to develop traffic to stimulate the mobility of the people and to encourage exchange of goods. On the other hand, it looks that the time is not far off when the Government will have to bear the cost of construction, at least partly, in order to secure other advantages. Paris and New York have, we find already, built their underground railways at the public expense entrusting the working of the service to private enterprise. The fact is railways have become indispensible, and as means of transport of bulk commodities of low value and of long distance traffic they cannot be superseded; and these are essential public services that have to be provided for at any cost. Railways are more necessary than roads and may have like roads to be provided for at public cost.

Sir William Ackworth writing on this subject says: "It may be we are on the eve of a revolution. Railways are as necessary as roads and roads have long since been recognised as public necessities to be provided mainly at public cost. The future may show, and not in England only, that it is necessary for the public purse to bear at least some portion of the cost of providing and maintaining our highways of steel, 'just as it does now in the case of ordinary highways, leaving the charges made to the users to cover the remaining cost of provision and maintenance; and the whole cost of actual carriage'."

We do not go so far. We only urge that railways should not be made a source of revenue to the State. My Committee will therefore answer the questions thus—

Q. 13.—We do not think it will be right to answer this question in general. Each case must be considered separately on its own merits.

Q. 14.—The whole of the revenue derived from railways is tax, i.e., it is only the amount paid to the Central Government towards meeting interest on debts that is not in the nature of tax.

Q. 68.—A direct tax on traffic can be justified only in extreme cases and as a temporary measure. Ordinarily it is uneconomic.

Written memorandum of the Chairman of the Coorg Planters' Association.

General.—From the 171 questions, one seems to be omitted—172. What increased taxation will be necessitated by the cost of this taxation enquiry and by the cost of many of the experiments that may be carried out as a result? The reason for this enquiry seems to be either (1) to increase the revenue or (2) to change the incidence of taxation. With the first I am in sympathy, the second is a delusion. Among the many difficult and disputed questions of taxation, one maxim remains forever fixed. Whatever forms of taxation you impose, the burden will inevitably descend to the poorest classes. The only way to increase their wealth is to increase the wealth of India, resulting in increased demand for labour, and so to an increase in their real wages.

Qs. 1 to 9.—A general enquiry into the wealth of India would be waste of time and money until a universal income-tax is instituted.

Q. 12.—Certainly not.

Q. 13.—In special cases like sandalwood or post offices it must be a monopoly profit. Government should indulge as little as possible in commercial undertakings but when such are necessary they should produce a commercial return.

Q. 14.—It is absurd to talk of 'taxation' in any of these items.

Q. 21.—Also absurd to talk of 'voluntary' taxes. All taxes are a necessary hardship.

Qs. 27 and 28.—Yes.

Q. 29.—Both.

Q. 30.—There is no objection in principle to a poll tax. In practice it is apt to introduce an idea of degradation. This would not apply to a poll tax on cattle, which would eventually increase the wealth of the country by reducing the many millions of worthless beasts.

Q. 31.—I have not my Encyclopaedia Britannica with me.

Qs. 33 to 35.—Income-tax could be easily increased and made universal, graduated if necessary as is the fashion. Any differentiation is not really fair, is difficult to work and liable to abuse.

Q. 36.—No.

Q. 37.—The objection to super-tax is that it confuses the issue and it is not clear to the poorer classes how high the richer classes are really being taxed. Graduated income-tax can secure the same amount.

Corporation tax is objectionable on the same grounds. Companies should pay income-tax on their net yearly profits, not on dividends declared.

Q. 38.—I see no objection to including agricultural incomes in the universal income-tax. In this case, the land tax might be abolished, or an equivalent tax placed on all real property. There is no equity in selecting land for special taxation. The theory that rent should be paid for land because owned by the Government (i.e., the experts appointed to manage the country) is unsound.

Qs. 39 and 40.—Talk of 'subsistence limit' is mere cant. There is no reason why incomes of Rs. 500 a year should not pay Re. 1 or so in tax, or of Rs. 100 a year, 4 annas. The lowest subsistence limit in South India is probably under Rs. 50 a year.

Q. 41.—More cant. All taxes can be said to be taxes on honesty.

Q. 42.—A very useful suggestion for all tax-payees, and would help them.

Q. 48.—Taxation for revenue only is the golden rule. You cannot make people do what you happen to think right by taxation.

Q. 50.—No. Quite unworkable, liable to abuse and huge expense.

Q. 52.—Salt tax is a simple and easily collected tax, so distributed as to bring no real hardship.

Q. 61. I hope not.

Q. 63.—Heavy taxation on drink, drugs and tobacco is justified, but see Q. 48.

Q. 78.—To cover all imports whatsoever, and can raise to 10 per cent if money is wanted.

Q. 79.—Yes, in the case of motor cars and all so-called 'luxury' taxes of 33⅓ per cent.

Q. 81.—So-called 'scientific' tariffs are a curse, waste of money on staffs, and unjust.

Q. 82.—So far from injuring India, a heavy export duty on things draining her real wealth would be a blessing to her, such as bones, fish, oil-seeds and possibly foodstuffs, in some cases. Even if this raised the internal price, the producers, mainly poor men and ryots, would benefit.

Q. 89.—Tax ability to pay. Too much litigation.

Q. 90.—No.

Q. 93.—Pay larger fees.

Q. 96.—Answered in Q. 38.

Qs. 98 and 99.—I doubt if Adam Smith said anything of the sort. Ability to pay and uncertainty could be regulated by assessment depending on world prices of each product averaged, say, every four years.

Permanent settlement is a gift to the landlord (or landowner) but unfair to everybody else. Last two paragraphs mere clap-trap, but see Q. 38.

Q. 106.—There should be no differentiation. All taxes are, or should be, national and beneficial.

Q. 111.—No. Tolls are an anachronism and a public nuisance and not worth the money.

Q. 120.—(1) I would adopt this except the provision for size of family. In India this is often a sign of present, and always a presage of future, wealth.

Q. 134.—Reason. Cigarettes are becoming universal and cigars dying out.

Q. 137.—Succession duties are a drain on wealth. To what extent is the unemployment in England due to loss of capital through these duties? They also tend to make expenditure wasteful. Owing to family arrangements they would also be very difficult to carry out.

Q. 147.—The Central Government would of course have all revenues from customs, excise and communications (railways, post offices and the like). Each province should collect its own income-taxes (and land taxes if retained) and an equal proportion from all provinces should be paid to the Central Government according to its needs. Minor taxes might be levied as required, by each province independently.

Q. 148.—Like any other business concern, the surpluses should be arranged to cover deficits.

Written memorandum of Mr. A. B. Cariapa, M.A., Subordinate Judge, Coorg.

Q. 1.—The village officers and minor officials are the persons who estimate the crops in Coorg. Their estimates in Coorg are to a certain extent correct and reliable. It is necessary that supervising officials ought to check them at the time of the harvest.

Q. 2.—No.

Q. 3.—Yes.

Q. 4.—I have no suggestion to make; it must be done either by legislation or by the experts.

Q. 5.—I would not advocate such a procedure just now.

Q. 6.—If possible I would advocate them undertaking of all-India legislation.

Q. 7.—There is no value except for taxation.

Q. 8.—Annexure C is complete.

Q. 9.—Agriculturists, traders, labourers and officials.

Q. 10.—Land revenue do not include revenues from sales of waste lands.

Q. 11.—No.

Q. 12.—I do not consider the whole or any part of the revenue from forests to fall within the definition of tax.

Q. 13.—Commercial relation—the element of tax would not appear in any of the cases.

Q. 15.—Yes. Plan (1).

Q. 16.—I do not think it is fair to take a portion of the increase.

Q. 18.—Yes.

Q. 20.—I would put land revenues for the improvement of landowners and for the establishment charges in connection with it.

Q. 21.—Taxes on luxury are voluntary.

Q. 23.—Yes.

Q. 24.—Tax on entertainments is reasonable but not on railway tickets.

Q. 25.—No.

Q. 27.—Yes.

Q. 28.—Yes.

Q. 29.—It must be direct.

Q. 30.—Yes. That depends on the economic condition of the country.

Q. 31.—The *chowkidari* tax and the professional tax can be compared to a certain extent.

Q. 32.—Yes.

Q. 33.—No.

Q. 34.—Yes.

Q. 35.—Yes.

Q. 36. No.

Q. 38.—Yes. The incomes of agriculturists should be made uniform. I do not think that any distinction should be drawn.

Q. 39.—I am unable to make any estimate.

Q. 40.—The old rule may stand.

Q. 41.—This reproach can be removed by the growth of accountancy profession and by the efficient control.

Q. 42.—Yes.

Q. 43.—Unless public are educated, it is not possible.

Q. 44.—Only legislature can do them.

Q. 45.—Yes.

Q. 47.—Three years' average may be taken.

Q. 48.—A light tax on some necessaries would not harm any one much. The capitalists have to bear such taxes.

Q. 49.—Yes. I would recommend the duty on the articles shown in the list.

Q. 50.—No. That is making taxation complicated and people might go in consuming cheaper articles which may be harmful to their health.

Q. 51.—Yes.

Q. 52.—I cannot think of any other tax.

Q. 53.—It is neither high nor low.

Q. 54.—It is better that the Government sell the salt directly.

Q. 55.—Yes.

Q. 56.—Yes.

Q. 57.—Yes.

Q. 58.—No.

Q. 59.—Yes.

Q. 60.—No.

Q. 61.—No.

Q. 63.—I accept all the statements.

Q. 64.—The policy followed in our province seems to be correct.

Q. 65.—It is better to introduce a uniform rate.

Q. 66.—There is no increase of illicit production.

Q. 67.—Not necessary.

Q. 68.—No.

Q. 69.—Each province should adjust its own duty.

Q. 70.—No further taxation is necessary. It serves a good beverage for labourers; no change is necessary.

Q. 71.—Yes.

Q. 73.—Yes.

Q. 74.—No.

Q. 75.—No. It is determined on the consumption of opium.

Q. 76.—It is practicable to appoint salaried persons. The revenue may go up.

Q. 77.—I think smuggling is sufficiently controlled.

Q. 87.—The existing taxes are sufficient. I do not propose to follow the example of the other countries.

Q. 88.—Sufficient stamp duties are collected. The existing Stamp Law is adequate.

Q. 89.—The idea is to discourage litigation and the existing court-fees are reasonable.

Q. 90.—Hobson may be right to some extent but if the Government should go on there must be taxes levied.

Q. 91.—I have no information about the evasion.

Q. 92.—I cannot mention any other instance.

Q. 93.—I consider that registration fees should be levied to meet the mere costs of the establishment. It must be within the reach of all.

Q. 95.—No. Yes, I would like to see a more general extension of entertainment tax.

Q. 96.—Tax to give to Government and rent to private individual.

Q. 97.—Yes.

Q. 98.—Except where there is a system of permanent settlement in vogue, the assessments lack the element of certainty.

Q. 99.—It is avoidable if there is permanent settlement.

Q. 100.—No. The further fractionisation of holdings would be increased.

Q. 101.—No.

Q. 102.—No waste lands should be treated differently.

Q. 103.—A uniform of taxation is feasible.

Q. 104.—To divide land revenue by occupied area.

Q. 105.—No.

Q. 106.—The measure of the benefits received.

Q. 108.—I think the taxes are satisfactory and I do not think that they should be substituted by any other tax.

Q. 111.—I do not consider that there is any justification for their general maintenance.

Q. 112.—Yes. No, it is not possible.

Q. 113.—The amount of the land cess and the rate of tax on land should be limited. Yes, because the lands here are not cultivated on scientific basis and the holdings are very small ones.

Q. 114.—15 per cent on the estimated capital. No comments to make.

Q. 115.—The houses that are let out should be taxed but not houses that are actually occupied by the owner.

Q. 116.—They are reasonable taxes.

Q. 118.—Yes.

Q. 119.—Taxes on business profits, capital stock of corporations, hotels, mines, transactions in capital and exchange might be recommended. No.

Q. 120.—

(1) No.

(2) Agricultural incomes should not be taxed.

Monopoly, tobacco, motor cars, betel leaf and areca-nuts can be taxed.

(3) Dowries are limited in India.

(4) Agricultural incomes must be excluded.

(5) Marriage duty can be charged because in India people spend money lavishly on marriages.

(6) I do not agree with Sir Ganga Ram.

Q. 121.—Yes.

Q. 122.—

(1) Yes.

(2) Yes.

(3) Yes.

(4) Yes.

(5) Yes.

Q. 123.—Yes. I prefer all of them.

Q. 124.—No.

Q. 125.—Each place ought to be studied.

Q. 128.—It is possible.

Q. 129.—Yes.

Q. 130.—The crop ought to be estimated and after the drying process it must be controlled.

Q. 131.—Yes.

Q. 132.—The existing rates are reasonable.

Q. 133.—The specific duties preferable.

Q. 134.—I attribute to the quality of the tobacco grown and tobacco is not cured properly in this country. There would be imports less.

Q. 135.—Yes. Yes.

Q. 136.—I would prefer (b).

Q. 137.—A small duty on succession and inheritance may be made on the actual profits made but not on the value of estates left.

Q. 138.—I do not agree with the suggestion made but it must be a general body.

Q. 139.—I agree with No. (1), not with Nos. (2) and (3).

Q. 140.—Exemptions can be made to the nearest relation to the extent of Rs. 5,000.

Q. 141.—I prefer (1).

Q. 142.—Yes.

Q. 143.—Yes.

Q. 144.—It is practicable.

Q. 145.—In Coorg the present revenue authorities would be imposed the collection.

Q. 146.—I would put up Rs. 5,000.

Q. 147.—(3).

Q. 148.—That is the case in all Federal Governments and one should expect in India also.

Q. 149.—Yes. There may be advantages and disadvantages.

Q. 150.—I am unable to suggest anything otherwise.

Q. 151.—Yes.

Q. 152.—Yes.

Q. 153.—No.

Q. 154.—No.

Q. 155.—No.

Q. 156.—Yes. But there could not be many cases. No.

Q. 157.—No.

Q. 158.—I am not aware of any other taxes.

Qs. 159 and 160.—Yes.

Q. 161.—Yes.

Q. 162.—I do not think that system would work well.

Q. 163.—No.

Q. 164.—No.

Q. 165.—I agree with Bastable. No.

Q. 166.—I am unable to suggest.

Q. 167.—I am not certain.

Q. 168.—The present system of retrenchment has reduced the staff.

Q. 169.—I am not aware.

Q. 171.—I do not think that popular idea has extended so far.

Written memorandum on local taxation by Mr. P. Mohan Rao, Deputy Accountant-General, Post and Telegraphs, Madras.

(*N.B.*—This note represents my personal views on the subject.)

My only justification for inflicting this note on the Committee is that I was an Examiner of Local Accounts for about a year and that I could fairly claim to have an inner knowledge of the working of local bodies and the scheme of local taxation operative in India. Though my experience is confined to Bengal, the conclusions arrived at will be found to be of wider application. This note must be taken as supplementing the information contained in my annual report regarding the working of local bodies in Bengal for the year 1923-24, a copy* of which is enclosed for the Committee's information.

Municipal revenue is derived from three main streams: (i) Grant-in-aid, chiefly for sanitation, including water-works, education, medical and public works, (ii) taxes and licenses, and (iii) service taxes.

Grant-in-aid has its advantages as well as its disadvantages. While it is apt to create a tendency in local bodies to look to Government to pull them through all financial difficulties, it places in the hands of Government a potent instrument, as in England, for insisting on a minimum standard of efficiency of the services thus bounty fed. Properly utilized, it has therefore a valuable place in the scheme of local taxation.

In Bengal, the taxation revenue is derived from either a holding tax based on the annual valuation of the holding levied on the owner or a personal tax levied on the occupier of a holding according to "his circumstances and property." I have indicated the salient points of difference between the English and the Bengal methods of levying this tax in my annual report. I shall leave it to the Committee to decide in what directions the Bengal method is capable of improvement. I would merely say that if the machinery inside a factory be taken into account in assessing the valuation, many municipalities, which are now hard put to in making both their ends meet, would be put into a comfortable position.

While in Bengal, I embarked on an investigation to ascertain the comparative fruitfulness of the two kinds of taxation in vogue there, viz., the personal and the holding tax. We could reach no definite conclusion, primarily because our investigation was vitiated by one important defect, viz., that we had no reliable data for ascertaining the holding tax derivable in a municipality where the personal variety of taxation was in existence. There was an "annual valuation" record, no doubt, to determine the latrine tax payable by each holding, but I could not entirely shake off the suspicion that the holdings were generally undervalued, the survey of property in these cases being generally in the hands of the Commissioners themselves. Personally, I would give my vote in favour of the holding variety, especially because the personal kind of taxation is liable to be employed by the Commissioners as an instrument of oppression against rate-payers, who have voted against them in the last election or as a means of retaining their adherents. This form of taxation does not find a place in the new Bengal Municipal Bill, but I can say from my experience that the Government is up against a solid wall of opposition.

It will be seen from my annual report that a fairly huge slice of municipal taxation revenue is derived from Government holdings. My experience as an Examiner was that municipalities have a general tendency to over-assess Government holdings. The law prescribes that Government holdings should be assessed in the same way as private holdings, but the assessment should not exceed a certain maximum amount, but it is the practice of nearly all the municipalities to levy the maximum taxation permissible under the Act. There is yet another direction in which over-assessment occurs. While a lower rate of taxation is levied on private holdings, the maximum rate is recovered from Government holdings. I have brought specific instance of overassessment under both the heads to the notice of Government. The loss to Government has been fairly large.

*Not printed.

The best way to avoid this contingency of overassessment is for Government to make a lump sum contribution based on what they consider to be a fair assessment and thus take the work of assessment from the hands of the Commissioners. The contribution may be fixed anew at the time of each general revision of assessment.

In England, in theory at least, all Government holdings are exempt from taxation though in practice Government make a lump sum contribution in lieu of rates. This contribution, however, constitutes only a fragment of what would have been assessed had Government holdings been private. In the continent too, so far as I remember, buildings occupied by "primary services" such as police stations, courts of justice are exempt, while buildings occupied by Government commercial concerns are liable to taxation. Following the continental practice, I consider that police stations and courts of justice should be exempted.

I may state here that in Bengal only certain dangerous trades and professions are subject to the license tax, while what are popularly called the liberal professions, lawyers, doctors, merchants, etc., incur no liability as such.

From the brief description given above, it will appear that there is something very defective in the present scheme of local taxation. There is a serious lacuna which has to be filled up if the burden of taxation is to be distributed fairly. At present the classes which are eminently fitted to shoulder the burden escape taxation altogether. To make my position clear, under the joint family system, it is the practice for the entire family, including grown-up sons, one of whom may be a doctor, another a lawyer and a third a merchant, all with fairly big annual income to live under the same roof, while only the father in whose name the holding may stand registered is liable to pay the holding tax, the others make no contribution whatever. This serious hiatus must be closed up. All liberal professions should be taxed. In this respect we may follow in the footsteps of the continental municipalities. Instead of having a rigid scale applicable to all the municipalities, Government have fixed several standard scales, the rate of taxes varying not only with the nature of the profession but also with the population of the town in which such profession is exercised.

The principle of "equality of sacrifice" is equally applicable in the field of local taxation. My experience has been that the size and comfort of a holding is not a measure of an individual's prosperity. When once a family has taken root in a house there is a reluctance to quit it, even with the dawn of better days. In France, they have a series of taxes based on the number of servants engaged by an individual, number of windows in the house, the value of the furniture inside, each supplementing the defect of the other, all with an eye towards exacting from the individual a contribution in proportion to his capacity to pay.

So far as I understand, there is no clear-cut demarcation between the provincial and the local fields of taxation in some of the continental countries, e.g., France and Belgium, as in India. Income-tax is a source of State revenue, but for purposes of local needs *additional centimes* are levied within the limits marked out by the State. I do not know whether there are insuperable administrative difficulties in the way of a similar scheme in India, but if possible I should like to see a scheme built up on the basis of our income-tax returns. The local authorities will have reliable data, already collected by the State authorities, and the scheme has the merit of making all the individuals pay in proportion to their capacity to pay. We shall have to work out several details, e.g., regarding the collecting agency, but these ought not to present insuperable barriers, especially with the continental practice before us. The limit of exemption will also have to be lowered when income-tax is levied for local needs.

In France there is a system of poll tax requiring each individual to contribute a certain amount of labour towards the local needs, which is generally commuted to money payment. I would not advocate a poll tax in India in view of the intense volume of popular opinion against it, and further as it is likely to place an effective weapon in the hands of the anti-Government party for purposes of agitation.

The scheduled taxes rules provide for the imposition of a tax on domestic servants and on octroi duty. My opinion is that the first tax is not likely to be fruitful in India as it is the custom here for the poorer

less scruple about taxing the people high if it feels the necessity for it than the Government officials. The Kondapalli Union panchayat insisted recently on raising the house tax to maximum rates against my wishes, and overruled me by a unanimous vote.

9. The system which I have sketched of unions and rural circles working side by side in the taluk board area under supervision is more or less the English and Prussian system. Rural and urban district councils work in the county council areas in England, and the system does not prevent the eventual formation of village panchayats with very limited functions (parish councils in England). The system most people at the Nuzvid meeting were in favour of, of universal village panchayats with very extensive functions and without intermediate local authorities for groups of villages, is more or less the French and Italian system and nearest to the French.

10. In France there are 36,000 village councils managing the local affairs of each village with nominally very extensive powers under most strict and searching bureaucratic control. But their annual income amounts to the enormous sum of 1,000 million francs or 60 crores of rupees or £40,000,000 sterling a year, an average of over £1,000 sterling per annum per panchayat. You cannot have such a system with an average of £10 per annum.

11. Italy is parcelled out into 8,000 local fund administrative units working under District Boards and under the Collectors and their audit establishments. Some of these units are small rural villages comparable to our revenue villages; and I will attempt a small comparison, not because I am in favour of introducing the system here at the present time, but merely to illustrate the point that it is desirable to provide inducements for further taxation and that further taxation of the land is quite feasible in my division.

12. Konatalapalli is a typical upland village in a backward portion of my division. It has a population of 1,300 and an area of 2,700 acres, of which 2,500 are comprised in holdings. It grows millet on about 1,000 acres, cotton on about 400, pulses on 200 or 300. There are also a few paddy fields. Castor-oil and chillies are grown on small areas. There are some fruit and liquor trees. The population comprises besides the agriculturists only the usual village artizans, a few weavers and a few persons connected with the liquor trade.

13. Torre San Patrizio is a typical upland village in a backward portion of Italy. It has the same population as Konatalapalli—1,300. The area comprised in holdings is somewhat less—2,000 acres against 2,500. It grows maize and wheat. Konatalapalli eats millet and sells its cotton. Torre San Patrizio eats its maize and sells its wheat. Konatalapalli has its oil-seeds; Torre San Patrizio its oil-fruit on the olive trees. Konatalapalli has a few liquor trees, but not many; Torre San Patrizio has a few liquor shrubs (vines), but not many. Pulses are grown as secondary crops in both villages. The population of Torre San Patrizio is all agricultural. There are the usual village artizans. There are no rich proprietors. There are not even weavers as a class apart, but in a few ryots' houses the women work at the loom in the winter. The people of Torre San Patrizio are vegetarians, not from choice but from necessity. They cannot afford to eat meat, nor even eggs. They sell their eggs and their fowls. They cannot afford to eat wheat bread, but eat maize porridge and maize bread, vegetables and fruit and what the cow produces.

14. The soil of Konatalapalli is black regar clay, which grows good crops of millet and cotton. The soil of Torre San Patrizio is light-coloured clay which grows fair maize and good fodder crops but very poor wheat and vines. In soil Konatalapalli has the advantage.

15. I shall now draw a comparison between the taxation paid by the peasants of Torre San Patrizio and the ryots of Konatalapalli.

16. The Government land revenue is almost precisely the same in the two villages. It is just over Rs. 3,000 at Konatalapalli, and 4,568 francs = Rs. 2,741 at Torre San Patrizio.

17. But when we come to local taxation on land, the difference is enormous. It is law in Italy that village panchayats shall not add cesses for their own purposes to Government direct taxes until they have exhausted every other source of taxation. But Torre San Patrizio has only, apart from abkari, land, houses and cattle to tax. It therefore taxes these, what corresponds with abkari, being entirely insufficient.

18. Konatalapalli pays Rs. 250 local cess. Torre San Patrizio pays 1,707 francs = Rs. 1,024 to the taluk board and besides this 6,337 francs =! Rs. 3,803 to the village panchayat, or a total of nearly Rs. 5,000 cess on the Government land revenue of Rs. 3,000.

19. Nor is this all. For the cess is only one of the taxes extracted by the Torre San Patrizio village panchayat from the ryot. The total revenue of the panchayat is Rs. 9,000 or three times the Government land revenue of the village.

20. The revenue of the Torre San Patrizio panchayat is made up as follows:—

	RS.
Cesses—	
Cess on Government land tax	3,803
Cess on Government house tax	329
Taxes—	
Cattle tax	2,671
Family or hearth tax	831
Octroi (chiefly on wine)	706
Profits—	
Profits on communal land, houses, oil-press, cemetery, oven, license tax	429
Contributions—	
From Government for schools	159
From taluk boards for schools	79
	9,007

The cesses, the cattle tax and the hearth tax, amounting to Rs. 7,631 come straight out of the pockets of the ryots and are a burden on the land; the ryots till, the cattle with which they till it and the houses they live in. Besides this Rs. 7,634, they have to pay Rs. 2,741 land revenue and Rs. 237 house tax to Government and Rs. 1,024 land cess and Rs. 106 house cess to the taluk board. The land, cattle and village site of Torre San Patrizio thus bear a burden of Rs. 11,854, while the land, cattle and village site of Konatalapalli bear a burden of little over Rs. 3,000. Nothing is levied on Konatalapalli cattle, there being no Government forest reserve in the neighbourhood.

21. I reckon the gross agricultural income of Torre San Patrizio at Rs. 90,000. This figure is based upon researches extending over 20 years and is very accurate. For Konatalapalli I cannot make so accurate an estimate. But the village officers tell me the crop on an acre of cotton is sold at about Rs. 40 and that on an acre of *cholum* at about Rs. 30. These two products alone, grown on about 400 and 1,000 acres respectively, yield Rs. 46,000 a year gross. Then there are hundreds of acres of pulses and other products including 50 of wet paddy, and I must also reckon in the milk and other products of the cows and buffaloes and the profit on cattle rearing (for I have included these and many other items in my estimate for Torre San Patrizio) and I do not think a lower estimate than Rs. 70,000 could be made for the total gross agricultural income of Konatalapalli.

22. The land at Konatalapalli is selling at Rs. 150 to 200 an acre. The average at Torre San Patrizio is about Rs. 350 an acre. There are about 2,500 acres at Konatalapalli, 2,000 at Torre San Patrizio. The market value of the land at Torre San Patrizio may therefore be put at 7 lakhs against about Rs. 4,37,500 at Konatalapalli. But it must be remembered that the rate of interest is lower in Europe and land at Torre San Patrizio is sold at a higher number of years purchase than in the backward Nandigama taluk of the Kistna district.

23. The number of years purchase reckoned at Torre San Patrizio is about 25, the sum reckoned as net income being taken to be what is derived by a resident owner who is not the actual cultivator, but gives the land out on the half-sharing system to actual cultivators. The net income corresponding with Rs. 350 per acre market value is Rs. 14 per acre. The taxation is Rs. 6 per acre. Therefore public bodies take Rs. 6 out of every (Rs. 14 + 6) or Rs. 20 net income.

24. This estimate of Rs. 14 per acre is strikingly confirmed by an examination of private accounts of 30 years. The figures worked out to almost exactly Rs. 14 per acre.

25. Accordingly, the net agricultural income of the 2,000 acres at Torre San Patrizio may be put at Rs. 40,000, of which Rs. 12,000 is taken by public bodies and Rs. 28,000 or about Rs. 22 per head of population left to the ryots, the corresponding figure for gross income being Rs. 70 per head.

26. At Konatalapalli 20 years is the limit of the number of years purchase that can be taken. On the same principle the net income of Konatalapalli is Rs. 8-12-0 per acre against Rs. 14 per acre at Torre San Patrizio; the total for the 2,500 acres is just under Rs. 22,000 against Rs. 28,000; taxation takes Rs. 3,000 out of Rs. 25,000 against Rs. 12,000 out of 40,000; the net income per head of population after paying taxes is Rs. 17 against Rs. 22; the gross income per head is Rs. 55 against Rs. 70.

27. The net income is something of a fiction in the case of populations composed chiefly of peasant proprietors. The gross income is perhaps a better test of relative taxable capacity. But it must be pointed out that neither gross nor net income per head is a fair test until allowance is made for difference in cost of living. I should say this difference would cover the whole excess of Rs. 15 gross income which the Torre San Patrizio peasant apparently enjoys. For, I should say that the more costly dwellings and clothes and cattle shelters necessitated by the European climate cost the Italian peasant at least the difference of Rs. 15 per head per annum. The Konatalapalli ryot probably has more to spend after providing for food, clothing, shelter. He certainly does spend more on luxuries such as jewels.

28. Even assuming that the somewhat artificial net income figure is the best basis for the determination of relative taxable capacity, Konatalapalli would still have to pay Rs. $\frac{7}{22} \times 12{,}000 =$ over Rs. 9,000 in taxation to be as highly taxed as Torre San Patrizio; that is to say, it could be taxed three times as high as it is at present.

29. I do not say that the pressure of taxation on the ryots of Torre San Patrizio is not extremely heavy; but it is not intolerable, for it is borne; and I should say the benefits exceed the burden enormously. The mortality at Torre San Patrizio last year was only 10 per thousand. It has its protected water-supply, resident doctor and trained midwife paid from the village fund, two good schools, a share in a cattle veterinary, a share in an agricultural expert, paved streets, metalled roads to the adjoining villages. I do not expect to live to see Konatalapalli with all these advantages, but in the course of the next two or three generations some progress will doubtless be made, and my point is that the main difficulty is not want of taxable capacity. The taxable capacity exists.

30. I have laboured the point that higher local taxation is feasible because it is the special duty of the District Officer to press for it. Central Governments are always very reluctant to allow local bodies to tap Government sources of revenue. In Italy the Government is constantly admonishing local bodies to find other sources of revenue instead of imposing cesses on the Government taxes. The limit they originally laid down by law was 50 centimes in the franc or 8 annas in the rupee, and a village still requires the Collector's special sanction to increase the rate. The villages used to lay a cess not only on the Government land tax and house tax, but also on the income-tax. Government put a stop to the cess on the income-tax altogether. In this country, the Government of India would probably be found opposed to any considerable increase in the land cess and would reject any suggestion that rural local bodies should levy a cess on the income-tax. Their policy is to reserve all increases in their own taxes for themselves and the Local Governments. It is a natural attitude, because they forsee their expenditure must increase, and they do not know where to look for fresh sources of revenue, and they prefer to dole out grants-in-aid from their surpluses to alienating sources of revenue permanently.

31. Our point of view is different. We feel acutely the inconveniences only dimly perceived by the Government of India of this system of doles. It is much better we should have our own fixed, unvarying, dependable income from land cesses increased than have earmarked grants of fluctuating amount doled out to us in accordance with the budget exigencies of the Supreme Government.

32. I do not press the matter of the cess on the income-tax. I put it to the Nuzvid meeting. Many of the electors were income-tax payers. Not one of them objected to the principle. What they all wrote was that the income-tax being unjustly assessed they were against a cess on it. There is something in this; moreover cess at 1½ annas in the rupee on the income-tax would not be a large sum.

33. However, I strongly commend to your attention my circle committee proposal, which is in the spirit that prevailed at the Nuzvid meeting and has been adopted by a unanimous vote of the non-official members of the taluk board. Only a slight amendment of the Local Boards Act, besides that already under contemplation, would in my opinion be required before it could be carried into effect. Section 34, sub-section (1) clause (v) of the Act and section 144, clause (v), give power to the boards and to Government to make rules for committees of local boards; but section 34 sub-section (1) clause (v) is so narrowly worded that these committees can do nothing but inspect, advise and report. No power, dignity, authority or importance is attached to membership of such a committee; consequently the committees have not been formed or have not worked, though many boards have made rules and tried to form committees. The circle committees I propose would have power, dignity, authority and importance; the power would have to be delegated; and a new delegation clause is necessary.

34. I think the following amendment would be sufficient; —*For* clause V of sub-section (1) of section 34, *substitute* "(v) the election or appointment and procedure of committees consisting of members of the board, or partly of such members, and partly of electors or other inhabitants of the local area or of any part of the local area with delegated power to exercise all or any of the functions of the board or of its president under this Act, subject to the supervision and control of the said board or president.

35. It would be unnecessary, and in fact inexpedient, I submit, to lay down rules in the Act itself for these circle committees. It was a mistake, in my opinion, to lay down detailed rules in the Act for union panchayats, and the whole scheme of the Local Boards and District Municipalities Act is misconceived. All matters of detail should have been left to subsidiary legislation.

36. The principle of leaving as much as possible to subsidiary legislation has long been adopted on the continent of Europe, has been gaining ground in England, and has penetrated to India, where the new edition of the Code of Civil Procedure was based on it.

37. To take a precedent more pertinent to the matter in hand, the Government of Madras promulgated a municipal regulation for Banganapalli when that Indian State was under their management. Instead of adopting the Madras District Municipalities Act, they drew up a short regulation of about 30 sections providing wide powers of subsidiary legislation.

38. My circle committee scheme could be easily started and would not require extensive legislation. I think it would be found generally acceptable and workable in other divisions besides my own. It is of course essential to the scheme that the formation of the committees should coincide with enhancement of local cess for provision of village roads. It need not be tried in all the circles at once. In this district it would be tried first in the delta *firkas* where the clamour for village roads is loudest.

39. The question was discussed at a meeting of the taluk board on the 29th instant. I purposely stayed away and asked the official members to take no part in the discussion. The following resolution was adopted by a unanimous vote of the non-official members:—

"The Board is of opinion that the District Board President may be empowered to increase the land cess half an anna more and that the increased cess may be placed in the hands of a committee formed in an electorial circle for construction of village roads, and that this enhancement may be tried first in the delta *firkas* in the division. That such amendments may be made in the Local Boards Act as would empower the District Board President to enhance the rate of land cess and to empower the Firka Committee to manage the surplus raised by such an increase."

40. If I am able to attend the District Board meeting at which the question will be discussed, I propose to move, if you see no objection, that the District Board is in favour of the legislation contemplated by Government subject, however, to further legislation being undertaken which will

enable the management of the proceeds of enhanced taxation to be confided to more representative bodies than the existing boards operating in smaller local areas.

Q. 15.—*Water-rates.*—I suggest charging for water by quantity instead of acreage. Italian experience has conclusively proved that charging for water by quantity is the most profitable, the most economical and the most easily worked system. Under the Mopad reservoir most of the villages are zamindari, and in South India it is especially when we supply water to estates that it would be convenient to charge by quantity; otherwise a special staff of revenue inspectors, *karnams* and chainmen will have to be maintained to measure fields and partial fields every year. There are constant disputes and there is much fraud, as our experience in Kistna proves. The Sub-Collector and the Executive Engineer seem to think there would be practical difficulties, the latter in particular going so far as to state that he would have to re-align all his canals and that he knew of no correct method of measuring a flow with a variable head. I told him I had never heard of practical difficulties which had not been overcome in Italy and I would enquire when I went on leave.

2. During my visit to Italy I found that the Italian Government sells water to irrigation associations, which are compulsory associations of all the ryots using the water of a particular canal or part of a canal. At Vercelli the association has large offices and a meeting hall, where delegates elected by the different villages meet and lay down policy in consultation with the association's chief engineer. The Government hands over the canal to the association. Similarly, under the Mopad reservoir I should make it compulsory by law for all the ryots and the proprietors of the proprietary villages to form an irrigation association and appoint a qualified man as engineer, and then I should leave the care of the distributaries and the distribution of water entirely to them, charging for the quantity of water let in from the main canal. The Sesia Association actually charges its members considerably less per unit than it pays to Government after defraying all expenses, as it uses the same water more than once. The Italian Government's price before the war was 30 francs per litre-second; it is now something over 40 francs.

3. The experts and landowners all told me that there was no difficulty in measuring any flow of water by simple sluice methods without elaborate mechanical meters. The formulae have long ago been worked out for all the Italian canals. The Sesia engineer showed me his curves and formulae and said his *acqualioli* (*nirganties*) could read and apply them without difficulty. He also showed me his register of daily reports for each moduled sluice sent up by the *nirganties*. He said variable heads did not matter at all. He also said he would undertake to measure any flow with a fall of as little as 3 centimetres. He added that, if our engineers made difficulties, we had better send him one and he would undertake to teach him all that there is to be learnt about practical measuring of water in six months. I asked him whether he measured all the water he supplied; he said no; he liked to keep a small percentage to be distributed through free sluices and charged for by acreage; he spoke as if this was unusual and a matter of personal preference. I suggested there might be tampering with the sluices and corruption of subordinates in India. He answered at once: "So there would be in Italy if it were possible; but the sum of what is passed through the distributary sluices every day must equal what I pass through the head sluice; I get my daily reports; it is not possible for all the *nirganties* to put their heads together and commit frauds." In case of scarcity he reduces the water by a percentage for everyone without distinction.

4. Prof. Fantoli, who is a very eminent authority, was equally positive that all flows can be measured and that this has been proved in practice in Italy, but he said that it might be necessary to create falls artificially in some canals, and he gave the minimum fall required, not as 3 centimetres, but 15 (6 inches) for distributaries and 2 feet for main canals. He said that 30 years ago 60 per cent of irrigation water was charged for by acreage, but now the figure is not half of 1 per cent. It had been so conclusively proved that water was economised, personnel reduced and fraud eliminated by charging by quantity that in North Italy it is now done universally. In case of scarcity, certain proprietors under his canal have a right to a full supply; for the others the supply is reduced proportionately.

5. Whether it be that the Italians manage their water distribution, or their manuring or their rotation of crops, better, it is very certain that the Italian paddy grower is out of all proportion more successful than the

Indian. Professor Novelli, Director of the Vercelli Experimental Station, told me the average yield per hectare was 45 quintals = 4½ tons = nearly 2 tons per acre. The average in Nellore is not 1,500 lb. an acre. The Italian ryot gets three times as much paddy per acre, and that paddy of much better quality. The proprietors of the two estates I inspected also gave me 45 quintals as the average yield. They estimated the standing crop in Signer Rossi's estate at 60 quintals and said 70 and 80 quintals were sometimes attained.

6. I should imagine the chief reason is the introduction of a rotation of crops. The bad Indian practice of growing paddy year after year in the same field once prevailed in parts of Italy, but it has now (like charging for water by acreage) been almost entirely abandoned. Now it is usual to grow paddy on only about one-third of an estate in rotation (but this one-third is made to yield as much as the whole would if paddy were grown on it every year). Part of the estate is kept under grass or trefoil, and wheat or Indian corn is grown on other parts. The following were given to me as common and ideal rotations:—

Common—

(1) 3 years paddy.

1 year dry cultivation with wheat or oats; meadow sown in the cereal while it is growing, and then it remains meadow for a year or two; after the meadow sometimes maize.

(2) For heavy soils—

1 year paddy
1 year wheat or oats
1 year meadow.

Ideal—

2 years paddy
1 year dry cereal
2 years meadow.

Paddy is considered a lucrative crop in Italy when it yields well; but the expense of cultivation is so high that it must first yield well; with our low Indian yields it would not pay at all. Cav. Stabilini told me that weeding alone costs him 600 francs a hectare (2½ acres). Putting irrigated land to meadow (which is also irrigated every 20 days or so) is not the sacrifice the Indian ryot considers it to be. The paddy planters in North Italy keep enormous numbers of good milkers, feed them on trefoil and other luscious grasses and make the greatest part of their profit out of the dairy. Milk and curds and ghee are valuable products in India, and I hope valuable meadow crops will be grown in the Chintaladevi cattle farm with Mopad water, good milk cows will be kept and that it will be proved there, for the instruction of the ryot, that to alternate meadow and dry cereals with paddy is the most profitable way of putting irrigable land to use in India also.

7. In the Italian estates some land is usually reserved for permanent meadow. It is irrigated summer and winter, and the ice that forms on the surface is broken up by alternately withdrawing and adding water. These permanent meadows are arranged on a slope so that water passes from one to another; each plot is further sloped from the centre and the water falls into side channels, which carry it to other plots. Some of these permanent meadows (marcite) were shown to me and I was told that, labour being now so dear, it would never pay now to form the meadows and plots but it was all done long ago.

8. An Italian rice estate is strikingly regular. The paddy fields are exact parallelograms, all the bunds and channels are perfectly straight and the larger bunds are all planted regularly with trees. The fields are kept beautifully clean either by employing an army of female weeders or by a new method, in which Signor Rossi instructed me. He sows with a special instrument which makes small furrows and deposits the seeds on the ridges between. The result is that the weeds get drowned while the paddy springs up. Forty days after sowing he passes another special instrument down the furrows to extirpate such weeds as may have come up. His fields were certainly quite remarkably clean. This system is known as the Cabrini system after the inventor and is a recent invention. Signor Rossi said he would be very pleased to show it to any of our experts (sowing season is end of April).

9. All the Lombard rice growers use chemical manures profusely. Prof. Novelli, whom I consulted, said he could give no general advice about manures for paddy fields. He only advises after being supplied with analyses of the soil and of the irrigation water. But there can be little doubt that the profuse use of chemical manures combined with rotation of crops and clean weeding contributes to the high Italian yields.

10. *Risaie stabili* (unrotated paddy fields) have been given up except in a few swamps at the mouths of rivers (e.g., near Ravenna) where paddy is grown not so much for its value as because it is the only suitable crop pending the silting up of the soil. As soon as the soil has risen sufficiently, wheat takes the place of paddy. Prof. Bellucci of Ravenna gave me the following as a common rotation there:—

2 years paddy.

Then 2 to 5 years lucerne.

The level falls in these years and is then raised again by growing paddy and pouring in silt with the water. In 10 or 12 years the level is raised sufficiently to enable wheat to be grown. In the Ravenna country, Government do not charge anything for the water as the cultivation is precarious and the paddy crop may be swept away by a sudden flood, but wishes to encourage the taking up of swamp land so that it may be gradually raised above the flood level. Private owners of sluices there charge 10 per cent of the gross produce of the fields benefited; and this is carried away in kind when the threshing machine goes round. Except for a little perphosphate, chemical manures are not used in the Ravenna country as the silt brought down by the rivers is very fertile.

Qs. 103 and 115.—*Land values unearned increment duty.*—I would not confine this to urban property. I would make all land passing at over Rs. 200 an acre pay. The duty would yield crores. In Germany it yielded 3 crores in the first year. The reason it failed in England was that it was prospective (original value to be calculated from date after the Act) and could not in the nature of things yield anything for a generation. In Germany it was retrospective (original value to be calculated at value 40 years ago if no subsequent sale). My draft for the Madras Corporation was also retrospective (to 1890). The Corporation unwisely rejected it and threw away 7 or 8 lakhs of revenue. I would make the Act an imperial one; the local bodies to collect the money and keep 40 per cent and hand over 10 per cent to the province and 50 per cent to the Government of India.

I enclose some figures from the Statistical Atlas (1923) of the Chingleput district, Madras Presidency, to illustrate the point that there is an unearned increment of agricultural land to be taxed. Its value has increased 5 to 6 fold within the last 50 years, while the price of rice has only gone up two and a half times.

Statistical Atlas—1923, *Chingleput*—

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10. *Sale value of land.*—If evidence is required of the extent to which the rise in prices and the low land tax has benefited the ryots, the figures of land sales will supply it. The value of wet land has more than doubled even in the last 20 years, and that of dry land has more than trebled. Fifty years ago the average price of dry land was Rs. 23 an acre; in the quinquennium ending with 1920 it was Rs. 138. In the same period the average value of an acre of wet land rose from Rs. 72 to Rs. 332. Dry land is worth exactly six times what it used to be, wet land nearly five; the land revenue assessment per acre has remained nearly stationary for half a century, while the property on which it is assessed is worth five or six times what it was. The following table gives from 1896 to 1920 particulars of sales for the various classes of soil;—

Description of soil.	1896 to 1900.			1906 to 1910.			1916 to 1920.		
	Total extent sold.	Total sale value.	Average rate per acre.	Total extent sold.	Total sale value.	Average rate per acre.	Total extent sold.	Total sale value.	Average rate per acre.
				Wet.					
	ACS.	RS.	RS.	ACS.	RS.	RS.	ACS.	RS.	RS.
1. Red loam, tank, river-fed	337	44,508	132	867	2,03,035	234	281	91,443	325
2. Do. rain-fed	531	41,083	77	1,436	2,20,711	154	412	1,17,356	285
3. Red sand, tank, river-fed	50	5,454	109	87	10,094	116	257	1,66,936	649
4. Do. rain-fed	15	961	64	160	15,895	99	98	19,677	201
5. Black loam, tank, river-fed	186	66,673	353	141	58,466	415	262	1,27,432	486
6. Do. rain-fed	270	52,856	196	426	1,28,672	302	185	79,849	431
7. Black clay, tank, river-fed	139	21,093	152	242	51,884	214	539	1,00,037	186
8. Do. rain-fed	25	3,370	135	283	42,328	150	202	38,719	192
9. Black sand, river-fed	1	170	170	4	607	152	2	820	410
Total ..	1,554	2,36,168	152	3,646	7,31,692	201	2,238	7,42,269	332
				Dry.					
1. Red loam, with well	36	4,170	116	19	2,982	157	66	22,907	347
2. Do. without well	141	4,745	34	303	18,114	60	329	55,165	168
3. Red sand, with well	20	850	42	135	9,011	67	83	12,235	147
4. Do. without well	159	4,624	29	775	29,703	38	389	32,694	84
5. Black loam, with well	13	1,726	133	94	12,179	130	32	8,984	281
6. Do. without well	66	5,267	80	141	13,382	95	70	8,653	124
7. Black clay, without well	6	73	12	70	2,699	39	129	12,565	97
8. Black sand, without well	51	561	11	25	1,369	55	4	744	186
9. Arenaceous, without well	37	2,050	55	134	6,201	46	42	3,431	82
Total ..	529	24,066	45	1,696	95,640	56	1,144	1,57,378	138

11. *Population and occupation.*—According to the census of 1921, the population of the district was 1,493,058 against 1,406,008 in 1911, or 6.2 per cent greater. In 1871 the population was only 938,000, and that figure is more than three times the estimate made of the population of the *jaghir* when it was first released from the oppressive administration of the Nawab of the Carnatic. The increase of the population from 2¾ lakhs to 15 lakhs accompanied by a rise in prosperity and the standard of living is eloquent of the influence of peace and justice and low taxation. Every decade has shown a great advance in population, but the limit has now perhaps been nearly reached if the population continues to be almost entirely agricultural, for the arable land has been nearly all occupied.

Betterment.—Has been introduced in Madras (Town Planning Act), but here again I would have an Imperial Act and apply the principle to all public works of improvement, e.g., irrigation works, bridges, harbours.

Q. 121. *Tobacco.*—I am very strongly of opinion that a tobacco excise will yield more and be far more elastic than salt excise. The tobacco monopoly in Italy was found to be far the most elastic of the sources of revenue in the War while salt was not elastic at all but regressive. The figures are—

Italian Budget Actuals.

	1913-14.	1921-22.
	Million lire.	Million lire.
Salt	90	157
Tobacco	348	2,668

Money depreciated between 4 and 5 fold. Therefore the real yield of the salt monopoly in Italy *fell* during the war to *less than half*, and I take the opportunity to correct the figure of Rs. 1-11-0 a head for Italy given in Annexure G. It is approximately correct for the pre-war period; but with the rupee at 1*s.* 6*d.* and the lira at 115 to the sovereign, the four lira a head it yields now is equivalent to less than 8 annas.

2. On the other hand the tobacco monopoly yield has increased nearly eightfold in lire, or, corrected for depreciation, nearly twofold. The monopoly now yields approximately 30 crores of rupees in Italy with a population of under 40 millions—about Rs. 7-8-0 a head or 15 times as much a head as salt. The Italian Government continually raised its tobacco prices during the war without affecting consumption.

3. In India I would not make tobacco a monopoly but tax the crop on the land without attempting to license or restrict cultivation. In the Madras Presidency it would cost nothing at all to add Rs. 25 or Rs. 50 an acre to tobacco land. The demand would be settled at *Jamabandi* by the ordinary staff. Bengal and the Indian States would probably fall in, employing a special staff if necessary. The West Coast Indian States of Madras had a monopoly of imported tobacco and of local pepper before the advent of British rule and our policy deprived Cochin and Travancore of their tobacco and pepper monopolies. For the Travancore tobacco monopoly and our Ceylon counter monopoly of 1812-24—see note at page 115 of my Dutch in Malabar (Madras Government's Dutch records series No. 13). There is reason to suppose that Indian States would be glad to return to the system of special taxes for special crops which the British Government has always discouraged on a principle that ought not to be applied to luxury crops—tobacco, betel, pepper and perhaps sugar.

4. The questionnaire does not mention betel and pepper. I consider betel to stand exactly on all fours with tobacco. It is a luxury commodity and should be heavily taxed.

5. I would begin with Rs. 10 an acre with the full intention of going up to Rs. 100 an acre in process of time. The tax would be very much worth while. There must be about 1½ million acres under tobacco and betel in the whole of India and a revenue of 1½ crores gross rising in course of time to 15 crores might be expected by the Government of India and Indian States. I do not believe the 15 crores would be left. If a poor country like Italy with a population of under 40 millions can pay its Government 30 crores for tobacco alone, 15 crores on tobacco and betel for the 320 millions of Indians would be very little—8 annas a head instead of Rs. 7-8-0 a head.

6. Hardly any of the other sources of revenue in Italy expanded in the same way during the War. Most of the major heads were actually regressive. Land revenue and buildings only went up from 195 to 301 millions

which is far below the increase required by depreciation; the post office only went up from 127 millions to 388, the customs only from 260 millions to 518 and so on, while the tobacco revenue went up from 348 to 2,688 millions. It will be observed that the tobacco monopoly in Italy yields five times as much as the customs, nine times as much as land revenue and buildings, 17 times as much as salt.

7. It may be worth the Committee's while to obtain the most recent figures for Italy and also for France.

Qs. 121 to 136.—I am clear that the only practical method is tax on the crop. If our Madras staff can identify and mark every one of the millions of liquor trees in the Presidency, can it be seriously contended that the betel gardens, which can be seen two miles away and the tobacco patches round the villages cannot be located and measured.

Qs. 137 to 146. *Succession duty.*—I can prove, if this is of any interest, that succession duty was levied by Hindu Indian States in the 18th century.

Written memorandum of the Chief Commissioner, Coorg.

The imperial or central budget as at present constructed depends largely on whether trade conditions reach the normal standard during the year to which the estimates relate. The most important elements in the budget are income-tax and customs duties; both are peculiarly sensative to economic developments. A slump in trade might disorganize the budget: a boom would give a few crores extra. In industrially organized countries it is almost impossible to frame a budget, the success of which does not largely depend on the maintenance of normal trade conditions. It is largely a question of degree. In India the tendency is over emphasised despite the fact that India is not industrially developed. The fact that income from agriculture is not taxed and that the small shopkeeping and money-lending classes—whose returns do not greatly vary from year to year except in the case of an economic cataclysm—are similarly exempt, increases the dependency of the yield of income-tax on the conditions of trade in its broader aspects. Widen the field of income-tax and the fluctuations would be less marked. If it is desired to ensure greater stability for the imperial budget by relaxing its connection with trade, it must be placed on a broader basis; this can be best achieved by including taxes on property. The time has come when the imposition of death duties should be seriously considered. The yield from such duties is not liable to wide fluctuations. It is considered financial heresy in some quarters to suggest that Bengal is under-taxed as compared with the rest of India. It cannot be gainsaid, however, that in the area under the permanent settlement, property in the shape of land does not bear its fair share of the burden of taxation. In such areas death duties would have stronger justification than in other parts of the sub-continent. One of the most stable forms of revenue is the water-rates charged for irrigation from Government canals. The Imperial Government should share in this revenue. In most cases the Imperial Government has provided the capital and taken the risk of failure. The scheme would involve a re-distribution of revenues between central and provincial, but this seems highly desirable in the interests of financial stability. To give Provincial Governments their full share of revenue as fixed by the Meston Award, it might be necessary to introduce new forms of taxation, e.g., a tax on tobacco: alternatively, the provinces might be given a share in the income-tax. That tax should be placed on a broader foundation by including income from land within its scope and by lowering the taxable limit of income. This would greatly increase the yield and would do perhaps more than anything else to stabilize central finance.

2. I shall not presume to illustrate the proposals I have outlined by a series of figures. I venture to think that a policy of new taxation as suggested, combined with a re-distribution to some extent of existing revenues between imperial and provincial, would give the Imperial Government the revenue it requires, thereby automatically abolishing the provincial contributions. The standard of ordinary income of the provinces would not necessarily be affected. If the Government of India found the sources of revenue at its disposal were in excess of requirements, taxation might be reduced or subsidies given to the provinces. If subsidies are considered objectionable, the proportion of shared revenues assigned to provinces could be raised.

3. *Provincial or local finance.*—It seems unavoidable that the greater proportion of the income of local authorities, District Boards and municipalities should be levied by means of a rate or tax on immovable property. This form of taxation is specially suitable in towns and might in many cases be fixed at a higher standard. In municipalities the revenue could be supplemented by a tax on professions. Some form of taxation which would secure to municipal authorities the benefit of the unearned increment is highly desirable. The difficulty is to devise a scheme. The Taxation Committee would, I venture to think, confer a great benefit on Southern India if they would emphatically recommend the abolition of tolls on roads. They are a serious embarrassment to trade and a permanent irritation and hindrance to fast moving traffic. It should be easy to devise a substitute. For example, the rate of motor licenses might be slightly increased and taxes imposed on private carriages not used for trade purposes.

4. The local rate expressed in terms of the land revenue is a heavy burden on the small proprietor and particularly on the uneconomic holding. A higher rate should be levied on holdings paying land revenue in excess of, say, Rs. 200. The house tax on non-agriculturists is a not unreasonable imposition. Where it does not exist petty shopkeepers and artisans pay next to nothing for the benefits they derive from the activities of the local authorities.

5. A point of importance as affecting the relations between provincial and local taxation is whether the local authorities fairly exploit the field left open to them. It is for consideration, for example, whether immovable property in municipal areas should not relieve the provincial budget to some extent by levying an education cess. It would not be unfair in some tracts to levy a similar cess on land. A crore or so raised in this way in a province with a revenue of, say 10 crores, would greatly simplify the problem of provincial finance. The propertied classes in England bear a considerable share in this way of the cost of popular education: also of the police. If excise revenue is gradually to disappear, it is inevitable that immovable property of all kinds will have to bear an increasing share of taxation. The principle of differentiation between the smaller and larger classes of property should be observed.

6. *Income-tax.*—There can be little doubt that if the field of income-tax widened and if at the same time the tax were efficiently administered, the increase in the yield would run into ten or a dozen crores. In the first place, the taxable limit should be brought down to Rs. 1,250 or at least to Rs. 1,500. At the present with a limit of Rs. 2,000 the subsistence limit is much higher than in England allowing for the difference in local conditions. With the limit at Rs. 2,000 the *petite bourgeoisie*, a very numerous class, practically escape imperial and provincial taxation. They contribute very little to excise: what they need pay in customs duty is negligible if they buy country cloth. The salt tax makes an inappreciable demand on their income. In point of fact, this class may well look on the era of British rule as a golden age so far as the demands of the State on their resources are concerned, especially in comparison with the age that preceded it. The earlier administrations levied a series of annoying imposts including the *jazyia* or poll tax in the case of the Hindu: the lower middle class in those days felt the burden of taxation almost as heavily as the peasant. Under British rule there has been practically no direct levy on this class except for a period of thirty years or so from 1886 when the taxable limit of the income-tax was lower. The assessment of income-tax in the old days when the limit was Rs. 500 worked unfairly in some cases. At present, it must frequently happen that a small business man with an income of Rs. 1,800 or so from retail trade and money-lending may make another Rs. 2,000 or so from land and yet pay no income-tax. In England a business man with a similar income would pay a considerable sum in income-tax. There is no reason why this class should escape taxation. They wield a considerable measure of political influence, if they do not provide the bulk of the urban party in the various legislatures. The share of the burden of taxation which any particular class bears should be more or less commensurate with its political influence. I cannot claim to have studied exhaustively the question of the lower middle class and middle class budget. It is a safe conclusion, however, that the lower middle class family of five or six persons in India on an income of from £100 to £135 is far better off than a family similarly endowed in England. House rent is lower: clothing is far cheaper partly because of a less exacting climate, partly from a difference of habit: a far simpler diet involves far less expenditure than in the English family. In the Indian household the ideal of the free breakfast table is practically achieved; the

English family has to pay an appreciable duty on tea and sugar: in most households there is some consumption of beer and tobacco which are heavily taxed. Education is practically as cheap for the Indian as for the Englishman. If these considerations have any value, the theory may be accepted that it is safe and not unreasonable to lower the subsistence limit for income-tax purposes. As suggested, it might be put at Rs. 1,250 or Rs. 1,500. This would mean a large increase in the yield of the tax. Further, there can be no doubt that income from land should be taxed. The theory on which the present exemption is based has no logical foundation. Land is a form of investment, whether hereditary or self-acquired, just as much as shares in a shipping company or a cotton mill. Why should a mill-owner who invests large sums in land pay no income-tax on the income therefrom, while a confrére who buys Government paper with his surplus does not escape? The money-lending classes in the North and other parts of India, whose transactions have led to the expropriation of large sections of the peasantry, have been singularly fortunate in having paid no tax on the returns from their investments in land. It is true that the ownership of land involves responsibilities and risks of loss—greater risks attach to other forms of property—and in any case the method of assessment of income on land might be leniently framed. Adopt the half net assets theory, and assess simply on an income assumed to equal the land revenue. In most cases the revenue would be several times such an estimate. This principle should, however, be confined to land subject to periodical re-assessment: land permanently settled should pay on a higher basis, say, the estimated average income for five years. There would here be an opportunity of recovering for the State a small share of its rightful dues forfeited by the permanent settlement. The small proprietor would escape as the size of the holding on which tax would be paid would rarely be less than 300 acres.

7. The administration of the law has been greatly improved in recent years, but there can be little doubt that there is still a great deal of evasion. This can be obviated to a great extent by increasing the strength and improving the efficiency of the assessing staff. With the development of banking and accountancy the work of assessment will become easier. It would be of enormous assistance if legislation could be introduced imposing a statutory duty on all merchants, etc., to keep their accounts in a prescribed vernacular and in a certain form. This might to some extent defeat the practice adopted by some businessmen of keeping double accounts for income-tax and ordinary purposes.

8. *Irrigation.*—Irrigation revenue is perhaps one of the most stable forms of State income. This is a good reason why the central revenues should share in it, an equivalent amount being assigned to the province affected either from income-tax or from new taxation, e.g., a tax on tobacco. As already noted the capital for the development of irrigation has usually been found by the Imperial Government. It is a form of revenue that is susceptible of expansion in proportion to the increase in the value of the produce raised on the land irrigated. Legislation to this effect could more conveniently be carried through in the central rather than in provincial legislatures. It should be regarded as a cardinal principle that canal water, where the canal is owned by Government, is a commodity, the price of which should vary in proportion to its value to the consumer.

9. *Tax on tobacco.*—There is no insuperable objection to a tax on tobacco grown in India, but I doubt if the yield would be very great. An acreage tax of Rs. 10 would perhaps yield a crore or a crore and a half. I am not able to say to what extent such a tax would raise the cost to the consumer. It should be an imperial tax.

10. *Land revenue.*—I am inclined to think that too much of a fetish has been made of the half net assets theory of assessment in some provinces and that the result has been that many of the so-called uneconomic holdings are over-assessed. There may be this advantage in the system that the holder is driven to other forms of work in order to pay his assessment, but the result is discontent, and it can hardly be said that the principle involved is equitable. It would be sound policy to revise such assessments. Part of the increased yield in the income-tax, if the scope is widened as suggested, could be set against the loss which probably would not amount to more than a couple of crores. The loss in local rates could be made up by increasing the rate on large holdings which benefit more from local administration than the smaller holding.

11. *Death duties.*—This is not an unreasonable form of taxation theoretically. If the rates are pitched too high, the burden on capital reacts on economic prosperity. If introduced in India, the rates should be kept at a lower level so as not to discourage the accumulation of capital. The Hindu joint family system with its theory of coparcenary ownership and limited estates presents an obstacle, but it should be possible to devise a scheme which would not threaten the existence of this peculiar form of property and at the time bring in a fair revenue to Government. The chief thing would be to protect the nucleus. The tax should be an imperial tax with a share to the provinces. It need not necessarily be introduced throughout India. Estates below, say, Rs. 20,000, should be exempt.

12. *Summary.*—The main object in view is to stabilize imperial finance. This can best be achieved by broadening the basis of imperial taxation, and thereby lessening the influence of trade and seasonal conditions on the yield of imperial imposts. The Government of India should share in the revenue from irrigation: the field of income-tax should be widened, income from land being subject to the tax and the taxable limit reduced so as to bring the lower middle class within its orbit. It is for consideration whether the Central Government should not again share in land revenue, the oldest form of imperial taxation, the provinces being compensated by a share in the income-tax or by new taxation. The result of a system framed roughly on these lines might make it possible to abolish the provincial contributions and give to the provinces a share in growing revenue, e.g., income-tax, death duties, etc., which would help to make provincial finance more elastic. Finally, the opportunity might be taken to relieve the small landholder by reducing the assessment on uneconomic holdings.